Austria Sch22	Indonesia Rp3100	Philippines.. Pesos40
Bahrain Din0.650	Iran Rls160	Portugal Esc120
Belgium BFr48	Israel NS3.50	S.Arabia Rls7.00
Canada .... C$2.00	Italy L1700	Singapore ... S$4.10
Cyprus .... C£0.90	Japan Y600	Spain Pta145
Denmark . DKr10.00	Jordan Fils.500	Sri Lanka Rup30
Egypt .... E£2.25	Kuwait Fils.500	Sweden SKr9.00
Finland Fmk7.00	Lebanon .. £L250.00	Switz SFr2.30
France FFr7.00	Lux LFr48	Taiwan .... NT$85
Germany DM2.30	Malaysia Rin4.25	Thailand Bht50
Greece Dr120	Mexico Pes300	Tunisia Din0.800
Hong Kong ... HK$12	Morocco Dh6.00	Turkey L600
Iceland Ikr125	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr10.00	USA $1.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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POST-WAR IRAQ

Development held back by politics

Page 19

World News

SA 'walk-out' threatens Namibian peace talks

Prospects for a negotiated end to the Angolan war and for Namibian independence worsened as Angola and President Fidel Castro of Cuba denounced South Africa for its "arrogant and disrespectful walk-out" from the latest round of US-brokered peace talks in Brazzaville. Page 20

Township massacre

Eleven people were massacred by gunmen in South Africa's worst black-against-black violence for months, in a house in New Hanover, Natal Province.

Bhutto Cabinet

Prime Minister Benazir Bhutto appointed her first Cabinet, bringing in three seasoned outsiders to make up for the lack of experience in her Pakistan People's Party. Page 2

Budapest coal blast

Eleven people were killed and 28 seriously injured in two explosions at the Lencsehegy mine near Budapest where 165 men were working.

15,000 still missing

Up to 15,000 people are still missing in the Bay of Bengal after a cyclone and a tidal wave swept over islands off Bangladesh's coast.

Sakharov invitation

François Mitterrand, French President, has invited Soviet human rights activist Andrei Sakharov, currently in the US, to visit Paris this week.

Shamir request

Mr Yitzhak Shamir, Likud leader and caretaker Israeli Prime Minister, is expected to ask President Chaim Herzog for three weeks more in which to form a new coalition government. Page 3

Green radicals out

Moderates scored a victory in West Germany's Green Party in ousting a national leadership dominated by radicals but in so doing deepened a split that could lead the party to ruin. Page 4

Zaire debt row

Zaire ordered its nationals to sell their assets in Belgium and ordered home its 2,000 students there in a growing row between the two countries over the rescheduling of the national debt.

Vessel captured

The Israeli army said it had captured a vessel off southern Lebanon which it suspected was being used to transport guerrillas between Cyprus and Lebanon.

Embassy reopens

British flag was hoisted in Tehran for the first time in eight years as Britain reopened the embassy it closed in the upheaval following Iran's Islamic revolution.

Staff flown home

The staff of the Yugoslav consulate in Sydney, closed by Australia after a consular security guard shot a Croatian emigre, flew home to Belgrade.

Arafat in Cairo

Palestinian leader Yasser Arafat held talks with Egyptian President Hosni Mubarak amid signs that Cairo would urge him not to jeopardise his current moderate image.

Estonia to vote

Estonian Supreme Soviet meets in the capital Tallinn today, amid signs that its deputies are determined to defend their previous decision to retain power of veto over all Soviet laws. Page 3

Locusts in Turkey

Turkey reported that locusts had landed in agricultural areas along its southern coast, possibly after being blown across the Mediterranean from north Africa.

Gridlock fear

New Yorkers this week fear "Gorbylock" - a huge traffic jam expected when Soviet leader Mikhail Gorbachev goes to address the UN and meet President - elect Bush.

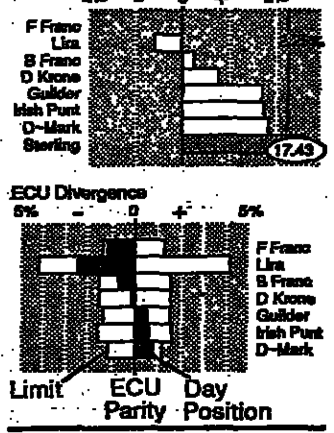
Business Summary

Kohlberg expects $6bn RJR asset sales

KOHLBERG KRAVIS Roberts, US leveraged buyout specialist which last week won the $25bn battle for RJR Nabisco, anticipates the sale of $6bn in various RJR food assets over the next 12 to 24 months. Page 25

EUROPEAN Monetary System: Disappointing French trade figures failed to depress the French franc within the EMS last week, and the Bank of France left its money market intervention rate unchanged. There had been concern that the French unit would attract renewed selling and put upward pressure on interest rates. Weaker EMS currencies were also helped by a slightly firmer US dollar, which helped to keep the D-Mark subdued.

EMS



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies. Currencies Page 40

SHARE PRICES in Taiwan plunged in the biggest one-day loss in the Taiwan Stock Exchange's history, amid renewed nervousness over a new capital gains tax on share trading. Page 25

UK Securities and Investments Board abandoned efforts to harden rules controlling price manipulation of new Eurobond issues in the latest sign of a change in approach at the regulatory body since Mr David Walker succeeded Sir Kenneth Berrill as chairman. Page 25

BANK of Nova Scotia, Canada's fourth largest chartered bank, reported substantially improved fourth-quarter earnings due to solid growth in its core businesses. Page 25

STET, Italian state telecommunications holding company, said a share swap scheme has been proposed for the planned incorporation of its main operating units. Page 25

HUDSON's Bay Company is gradually turning around its department store business across Canada through restructuring and modernisation. Page 25

NEXT UK retailing group, learned the hard way that many of the convertible puttable Eurobonds that UK companies issued with abandon in the bull market days of 1987 are not really equity, but debt after all. Page 22

MAN, West German heavy engineering, automotive and construction group, said its worldwide group net income rose 24 per cent to DM202m ($117m) in the year ended June. Page 22

EUROBOND market's two-year-old Council of Reporting Dealers has elected Mr Jerome Goldstein as its new chairman, replacing Mr Thomas Beacham who held the post since the organisation was established. Page 22

SEAGATE Technology, California-based concern which is the world's largest maker of hard disk drives for small computers, is to cut domestic workforce by 1,000 jobs. Page 22

W.R.GRACE, US chemicals group, is to sell 50 per cent interest in the Four Corners phosphate mine in Florida for more than $100m cash, in another step in the major rationalisation of the US industry. Page 22

SPAIN looks like becoming the latest borrower to benefit from US investor worries about the risks of investing in corporate paper in a world of huge takeovers which can turn investment-grade bonds into junk at a stroke. Page 22

Troops tighten grip on Armenia, Azerbaijan

THE SOVIET army has tightened its grip on the republics of Armenia and Azerbaijan following an order from Moscow to mount a round-the-clock guard on power stations and power lines, rail and bus stations buildings and industrial sites, writes John Lloyd in Moscow.

The military commander of Baku, the Azerbaijani capital, yesterday pledged a tough crackdown on street protests. He called on protest leaders to "abide by Soviet laws unconditionally" and warned that "force will be used in case of any failure to abide by regulations"

The order to guard key installations in both republics was issued on Saturday by the Council of Ministers in Moscow in an apparent response to organised sabotage of economic targets.

A Council statement said there had been "attempts to put out of action important industrial and transport facilities."

The authorities in Armenia and Azerbaijan have been ordered to get people back to work, especially in factories producing essentials. They have also been told to inform their citizens that "those guilty of actions to disorganise the republics' national economies will be held administratively or criminally liable."

The tougher line follows what was clearly an abrasive encounter on Thursday night between Mr Mikhail Gorbachev, the Soviet leader, and the leaders of the two conflict-ridden republics.

An official account of the meeting, issued by the Tass news agency, noted that "the leaders of Armenia and Azerbaijan had failed to ensure the security of the Armenian population in Azerbaijan and the Azeri population on Armenia."

A commission composed of politburo members and representatives from Armenia and Azerbaijan had been formed to find "a truly internationalist solution to the problem," it said. This would be done "without changing the status of Nagorno-Karabakh", the Armenian-populated enclave in Azerbaijan which Armenians want to incorporate in their republic.

This formulation contradicted the belief of many Armenians, who had thought that a commission of inquiry

Continued on Page 20

The Soviet Politburo approved a radical extension of the number of enterprises allowed to import and export directly on their own account. Page 20.

The Soviet authorities and Israeli Government yesterday appeared to have pulled off a diplomatic and security coup, as four hijackers were flown back from Israel to the Soviet Union. Page 3.

Tanks move to crush commando revolt at Argentine barracks

By Gary Mead in Buenos Aires

TROOPS loyal to the Argentine Government yesterday moved in with tanks at the Villa Martelli munitions barracks in Buenos Aires to crush a military revolt by an estimated 500 rebel commandos. Earlier, the 15 remaining rebels at the Campo de Mayo base where the rebellion began on the outskirts of Buenos Aries on Friday, surrendered.

Two columns of loyalist tanks were lined up at the side entrance of the Villa Martelli base just before dusk yesterday, apparently ready to break down the walls and storm the rebel stronghold.

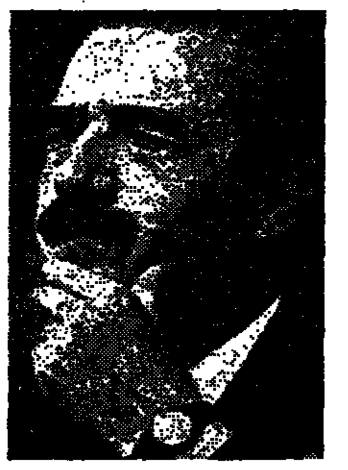
About 300 civilians had earlier thrown stones and rocks at the front entrance of the base. Rebel soldiers responded by firing tear gas canisters and shots in the air. One civilian casualty was taken away.

The rebellion is Argentina's third, and most serious, in 18 months.

Colonel Mohamed Ali Seineldin, leader of the rebels, called for a truce in order to talk with General Jose Dante Caridi, the chief of staff.

Col Seineldin is demanding an amnesty for officers in prison for human rights crimes, increased defence spending and the removal of Gen Caridi.

He said the insurrection was "purely an internal army matter" but added that he had no intention of surrendering.



Alfonsin: ruled out negotiations with rebels

Only one regiment, of mechanised infantry based at Mercedes, a 2-hour drive from Buenos Aires, was reported to have come out in support of the rebellion. By late afternoon the remaining rebels at the Campo de Mayo base had surrendered to government forces.

But in another development in the strategic northern city of Cordoba, Gen Roberto Dominguez, head of the Third Corps, said that the Fourth Brigade of his corps was not willing to go to Buenos Aires to assist in its repression. He denied that they were themselves mutinying.

President Raul Alfonsin, who cut short a visit to the US because of the mutiny, addressed the nation on television and radio late on Saturday. He ruled out negotiations with the rebels and called for obedience to constitutional order. He said he had ordered General Caridi to use whatever means necessary to crush the mutiny.

On Saturday afternoon, Colonel Seineldin had led a convoy of six tanks and several personnel carriers from Campo De Mayo.

Colonel Seineldin's column then took up fresh positions at the Villa Martelli base.

Late on Friday afternoon one officer and three other soldiers loyal to the Government were wounded after a brief exchange of mortar and rifle fire within the Campo De Mayo barracks. Government troops under General Caridi ceased fire once it became obvions that Colonel Seineldin's men were prepared to offer stiff resistance.

As the President spoke on Saturday evening, troops loyal to the Government were stationed in the presidential palace in the centre of Buenos Aires. An estimated 80,000 people demonstrated their opposition to the rebels in front of the Congress building.

Editorial Comment, Page 18

EC leaders agree on joint effort to control crime

By David Buchan and Tim Dickson in Rhodes

EUROPEAN Community leaders launched a major effort at the Rhodes summit to reconcile the goal of open borders with the necessity of controlling crime.

The 12 member countries agreed at the weekend each to appoint a special co-ordinator to oversee the increasingly sensitive inter-governmental negotiations on combating terrorism, drug trafficking and illegal immigration.

The initiative came during a summit which was not only marked by rows between Mrs Margaret Thatcher, Britain's Prime Minister, and the Belgian and Irish Governments over the Ryan extradition affair but by growing awareness that the dream of a Community without internal frontier checks can be realised only if alternative means of crime control are found.

The border issue was the main surprise of a meeting which largely lived up to its billing as a trouble-free review of progress on the road to 1992, the deadline for creation of a single market. Heads of Government issued their predicted assurance that Europe "will be a partner and not a fortress" to the outside world.

The need for co-ordination will be underlined on Thursday when EC interior ministers hold a "Trevi group" meeting in Athens on terrorism and international crime control.

The angry sideshow between Mrs Thatcher, on the one hand, and her Belgian and Irish counterparts, Mr Wilfried Martens and Mr Charles Haughey, on the other, raised the issue of a common extradition policy for the Community.

The idea was suggested by Mr Martens as he responded to Mrs Thatcher's "utter dismay" at the refusal of the Belgian Government to hand over Mr Patrick Ryan to face terrorist conspiracy charges in Britain.

By all accounts her confrontation with Mr Martens was more heated than that with Mr Haughey, who she still hopes will agree to the extradition request. Nevertheless, she made clear her view that Irish procedures for detaining people whose extradition was sought by Britain "are not working satisfactorily."

Mrs Thatcher indicated that her Government would seek to hold Mr Haughey to an undertaking that the procedures would be reviewed if they proved difficult to operate.

Mr Haughey countered that Mrs Thatcher was prejudicing the outcome of extradition hearings by raising individual cases in Parliament.

In reviewing progress towards 1992, the summit communiqué called for more urgent efforts on tax, free movement of people, transport and energy, and animal and plant health controls.

Mr Andreas Papandreou, the Greek Prime Minister, who chaired the summit, declared himself satisfied with the steps taken to advance the Greek goal of adding a social dimension to the internal market. Britain was equally pleased with the pragmatic tone of the communiqué, which called for a stocktaking of current national social legislation and made no grand commitments to new Community measures.

The 12 leaders put their names to a declaration committing the EC to playing a leading role in future moves to protect the world's environment.

Editorial Comment, Page 18; Japanese plan to woo Europe, Page 20

New York N-plant may soon be allowed to operate

By Roderick Oram in New York

THE CONTROVERSIAL Shoreham nuclear power station near New York City could soon be granted a limited operating licence following the state legislature's refusal to endorse a plan to scrap it.

The legislature's decision represents the worst political defeat suffered by Governor Mario Cuomo, who had negotiated the pact last summer, during his six years in office. The vote was also a severe setback for environmentalists.

If implemented, the plan would have been the first time that environmentalists and local citizens had forced the dismantling of a US nuclear power station before it had begun operation. The 809MW facility was completed in 1985 at a cost of $5.3bn.

Opposition focused on the possibility of huge traffic jams if people were evacuated through New York City, the only way off Long Island where the plant was built.

Sensitive to public anxiety over Shoreham, Mr Cuomo had persuaded its owner, Long Island Lighting (Lilco) to sell it to New York state for $1. In return, Lilco could have raised its electricity rates by 65 per cent over the next 10 years to help pay for the abandoned plant and to build alternative generating facilities.

Lilco had supported the deal but as a precautionary measure had also continued its fight for a licence, winning recently several key rounds. In particular, President Ronald Reagan issued an order that federal regulators could impose an evacuation plan on local authorities who balked at having a nuclear power station in their domain.

Lilco said it would push for an operating licence now the plan appeared dead. Officials in Washington indicated the utility could win permission by the end of the month to run Shoreham at 25 per cent power with a full licence being awarded later.

Various explanations for Mr Cuomo's defeat poured out of Albany, the state capital. Some observers said Long Island politicians had killed the plan because it would have meant even higher rates for their constituents who already burn some of the most expensive electricity in the US.

Mr Cuomo countered that any alternative plan, including Shoreham's operation, would be even more costly. The legislature meets again next week.

Inquiry into share-sales fraud extends to Gibraltar and Spain

By Richard Waters in London

AS MUCH as $1bn was invested through a network of fraudulent share-selling operations in several European countries, or more than double the amount that had previously been thought, investigators now believe.

This emerged last week as the tentacles of the investigation stretched wider to embrace both Spain and Gibraltar.

The network of so-called "boiler room" operations involved the selling of shares in unquoted US companies to investors around the world by telephone. They came to light in August, when 10 arrests were made following investigations by Swiss and West German police.

In the latest development, Spanish police have charged Mr Michael Reeve, who operates from Marbella, with fraud following complaints from investors in Argentina, Zimbabwe and Thailand.

They have also notified Interpol that they wish to question five others who were directors of First Gibraltar Consultants, an investment company based at the same address as Mr Reeve. These are: Ronald Ernest Barnhardt, Gertrude Barnhardt, their sons Jordan and Aaron, and Christopher Meraw.

No direct link has been established between these operations and those which led to the arrests during the summer.

However Mr Laurent Kasper-Ansermet, the examining magistrate heading the investigation in Switzerland, arrived in Marbella last week to investigate a possible link. Also, First Gibraltar is known to have sold shares in one of the unquoted companies promoted by the other "boiler rooms".

It remains unclear how much was invested through the Spanish operations. Marbella police claim that Pta40bn ($354m) was collected from investors. However, Gibraltar lawyers trying to trace money on behalf of a growing batch of investors who have contacted them for help say that they think the amount invested is only a tiny fraction of this.

It is unlikely that an operation of the size claimed by Spanish police could have gone undetected, or that it could have been built up in the 18 months or so in which First Gibraltar was operating, they say.

First-hand reports suggest that a large number of clients could have been involved, however. Mr Gwilym Rhys-Jones, a director of Dominion International Financial Services who was called in by the Spanish police to advise immediately after the initial arrest, says that several boxes of index cards, each showing the name of an investor and the amount invested, were recovered.

Spanish police said last week that they had still not ascertained the number of investors, but that many of them were British.

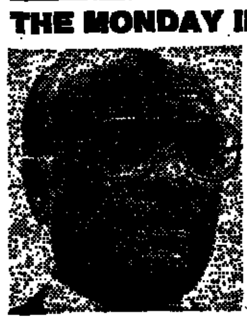
Mr Joe Bautista, financial sector adviser to the Gibraltar Government, which suffered recently from the exposure of Barlow Clowes, sought to distance the British colony from the scandal.

First Gibraltar was a Spanish company which had the same name and directors as a Gibraltar-registered company, he said. The association was shown on the Spanish company's letterhead to take advantage of the respectability of Gibraltar, but the operations never touched the territory, he said.

First Gibraltar also used accounts with banks in the territory. These have been frozen by lawyers who have also traced and frozen funds in other territories, although they declined to give further details.

CONTENTS

THE MONDAY INTERVIEW



Mr Clayton Yeuter, US Trade Representative, is optimistic about prospects for the Gatt talks starting in Montreal today, saying: "it has stirred up intense activity, raised the profile of trade and generated momentum for 1990."
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OVERSEAS NEWS

Seineldin revolt new test for Alfonsín

The Argentine president's credibility depends on his standing firm, Gary Mead says

ON the one-hour drive from Buenos Aires to the Campo De Mayo, which looks more like a country club than a huge army base, it is impossible to pass without notice a large yellow hoarding hanging above the motorway: "Good health is only appreciated when it is lost. The same goes for democracy."

Four days into the third and by far the most serious army rebellion in 18 months, the poster, paid for by the Government and several months old, now has a more poignant significance than ever thought possible.

Presumably, Colonel Mohamed Ali Seineldin, 54, the leader of the current insurrection, holds a different notion of democracy from that espoused by President Raul Alfonsín. Colonel Seineldin, who in the past described himself as a "Catholic nationalist", spent the past four years in Panama, two as military attaché to Argentina's embassy and the last two as military instructor to Gen Manuel Noriega's army.

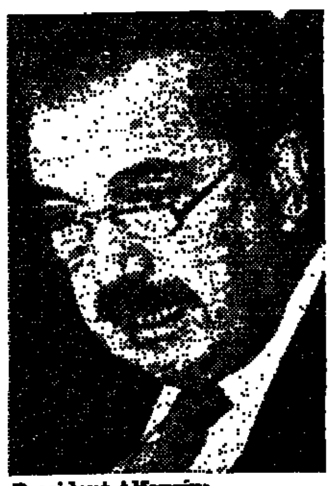
Col Seineldin has never made a secret of his dislike for General Jose Dante Caridi, who as chief of staff now has the difficult task of winkling out 500 well-armed and highly trained commandos from their trenches in the military arsenal in Villa Martelli, just 40 minutes' drive from the presidential palace.

A Falklands veteran, Col Seineldin is widely regarded as one of Argentina's finest military tacticians. He commands respect among not only the rank and file but also a number of well-placed senior officers, not least for his refusal to accept a military decoration for his role in the Falklands because, as he said at the time, "we were defeated".

That austere attitude, plus his absence from the country for so long, have conspired to give him an image of tough, apolitical fairness. His rebels guarding the entrance to Villa Martelli have one word when asked what it is they want – "dignity".

Col Seineldin sneaked back into Argentina on Thursday morning last week, allegedly via Uruguay. Soon after, he left one of his business cards with a foreign diplomat, saying the time had come for action.

But Mr Alfonsín, who at the moment should be preparing celebrations for December 10, the fifth anniversary of his taking office, has shown his own ability for decisiveness. Hurriedly cancelling his US trip, he arrived back in Argentina early on Saturday morning. It was clear that he had decided to fight, with the support of Gen Caridi. He gave instructions to crush the insurrection with force if necessary, and to stop all discussion with the rebels.



President Alfonsín: determined to fight

Easier said than done. Gen Caridi's head is now on the block. In January this year, he faced a second mutiny led by Lt-Col Aldo Rico, who first shook his fist at Mr Alfonsín in April 1987. The result of Col Rico's first assault on elected government was, even on the best analysis, a defeat for Mr Alfonsín.

Col Rico demanded and got a promise that Mr Alfonsín's Government would backtrack on outstanding human rights violations trials, under which military officers were faced with jail terms for allegations of participating in the "disappearance" of at least 9,000 people during the military dictatorship of 1976-82.

On Friday, a group of rebels struck unsuccessfully at Magdalena Prison, near La Plata in Buenos Aires province, where Col Rico was being held awaiting trial. They retreated after the military police resisted, and Col Rico has since been moved deeper into the interior.

Col Seineldin was the *eminence grise* behind Col Rico, and is now the rallying-point for many like-minded officers, who have all gradually been marginalised by Gen Caridi. Col Seineldin has demanded an amnesty for all officers now in prison for their part in the "dirty war" of 1976-80.

He does not regard that war as having been "dirty" but sees it simply a necessary cleansing of the state of marxist subversion.

His other demands include more money for military matters, and a change in the army's leadership. But most important, and for Mr Alfonsín most difficult, is his obvious desire to get rid of Gen Caridi. The Government has so far refused to consider any concessions.

Col Seineldin has throughout this year been rumoured to be in close touch with Mr Carlos Menem, the Peronist candidate for next May's presidential election.

So far, all politicians have maintained a united line against Col Seineldin's rebellion, though Mr Menem has been careful to distinguish between his pro-democratic line and that of the Government. He and Col Seineldin share an affection for neighbouring Paraguay's ageing dictator, Adolfo Stroessner – Col Seineldin for Paraguay's "order", Mr Menem because Mr Stroessner gave sanctuary to Gen Juan Peron in 1955 after he was deposed by a military coup.

Gen Caridi has thrown in his lot with Mr Alfonsín, and his career and perhaps even personal safety now depend on his being able swiftly, and without much bloodshed, to crush Col Seineldin.

The longer the delay, the greater the chance that disaffected elements around the country, as fed up with pay levels far behind recent rampant inflation as anything else, will join Col Seineldin.

Mr Alfonsín cannot afford to back down. If his already punch-drunk Radical Party is to stand any chance of credibility in next May's presidential election, he has to stand firm now.

Venezuelans vote for new president

By Joe Mann in Caracas

VENEZUELANS, who ousted their last military dictator in 1958, went to the polls yesterday to vote for a new president and national and state legislators, all of whom are scheduled to begin serving five-year terms next February.

Most of the interest for the country's 9.1m voters centres on the race for the presidency, by far the most powerful branch in the Venezuelan constitutional system.

Only two of the presidential candidates representing Venezuela's mainstream political parties have a chance of winning. These two are Mr Eduardo Fernandez, 48, who is the candidate of the Christian Democrat Copei party, Venezuela's second largest political group, and Mr Carlos Andres Perez, 66, a former president who stands for the ruling Democratic Action party.

During the campaign, Mr Perez stressed his experience as chief executive in the oil-boom years of the late 1970s, while Mr Fernandez offered voters a new generation of leadership.

First results are not expected until early today.

The Government banned sales of alcohol and limited the carrying of firearms during voting.

Bhutto to hold key portfolios in Cabinet

By Christina Lamb in Islamabad

PAKISTAN's new Prime Minister, Ms Benazir Bhutto, has announced her Cabinet, in which she will hold the key portfolios of finance, defence and information.

Ms Bhutto has bowed to the pressure from the army and the US to retain Sahabzada Yaqub Khan as Foreign Minister to ensure continuity of the present Afghan policy. Yaqub Khan is a member of the opposition Islamic Democratic Alliance, and was a minister in the last government as well as in the late President Zia's martial law Cabinet.

Ms Bhutto refused requests to keep Dr Mehbubul Haq as Finance Minister, though conceding that the fund managers and top bureaucrats in the ministry would not change, as well as agreeing to appoint as financial adviser Mr V.A. Jaffrey, principal secretary to the President and former chairman of the State Bank.

Ms Bhutto's Cabinet comprises only 10 ministers and seven ministers of state, a reflection of the party's lack of experienced personnel. Two of the most important ministries, law and interior, went to Aitzaz Ahsan, Ms Bhutto's young legal adviser, who was a minister in the Punjab government in the 1970s when Ms Bhutto's father was Prime Minister.

Ms Bhutto, at 35, has no government experience. Her Cabinet members, mostly in their early forties, mainly lack government experience.

Before forming her cabinet, Ms Bhutto held a series of meetings with President Ghulan Ishaq Khan, General Aslam Beg the army chief, and a high-level delegation from the US. The Americans, led by Mr Richard Armitage, Assistant Secretary for Defence, and Mr Richard Murphy, his counterpart in the State Department, went home satisfied with Ms Bhutto's assurances on the issues that concern them most – narcotics, Pakistan's nuclear programme, and support for the Afghan rebels.

Addressing her first press conference as Prime Minister, Ms Bhutto made a point of saying "our nuclear programme is for energy purposes only. We want Pakistan to be a weapon-free zone". She quashed fears that she would be soft on heroin traders as a result of her party's coalition in the frontier province with Wali Khan's leftist Awami National Party, which recently stated that poppy growing was an important source of income and should not be stopped.

Soviet ambassador leads talks with Afghan rebels

By Christina Lamb; Quentin Peel and Finn Barre

SOVIET officials held their first high-level meeting with Afghan guerrilla leaders at the weekend, in the Saudi city of Taif, amid signs of irritation in Moscow at the Kabul regime's inability to form a stable coalition.

The five-member delegation of the Afghan resistance alliance was headed by the alliance chairman, Prof Burhanuddin Rabbani, while the Soviet team was led by Mr Yuri Vorontsov, the Kremlin's ambassador to Kabul.

Afghanistan's President Najibullah insisted that he backed the talks. His statement was relayed by Tass, the Soviet news agency, apparently seeking to contradict any suggestion that Moscow might be ready to set up an alternative government without him.

"The Afghan leadership [has] repeatedly expressed its readiness to enter into negotiations with the opposition," he said, adding that he had proposed direct peace talks in a message to the rebel commander, Mr Ahmad Shah Massoud.

But a rebel official in Riyadh told Reuters: "This is a victory for us because the talks are directly with us. . . with no representation from the Kabul government."

The Soviet Union has suspended its troop withdrawal from Afghanistan – due to be completed by February 15 – because of the deteriorating security situation. But Western observers are convinced Moscow still wants to extricate itself.

The UN has proposed the establishment of a 30-member council comprising members of the guerrilla movement, officials of the Kabul regime who are not members of the ruling PDPA party, and prominent émigrés: this would act as an interim Government and oversee elections.

However, early agreement on the council seems unlikely since the rebels say that nobody in the current regime would be acceptable, even people who are not PDPA members.

ANC moderate dies

By Nicholas Woodsworth in Lusaka

MR Johnson Makathini, Director of Foreign Relations for the African National Congress (ANC), died on Saturday in Lusaka, Zambia.

Mr Makathini, 56, died of diabetes. He was regarded as a leading moderate on the ANC's Executive Committee. As one of the organisation's most experienced diplomats, he worked for better relations with the US, and opposed the influence of the South African Communist Party on the ANC.

He was also against the increased use of violence by the ANC in South Africa, fearing it would damage the ANC's cause in Europe and the US.

Shipping Report

Tanker business jumps after Opec output deal

By Kevin Brown, Transport Correspondent

THERE was a dramatic increase in business in the tanker market last week after the oil ministers of the Organisation of Petroleum Exporting Countries (Opec) agreed to cut production by around 4m-5m barrels a day from January.

Brokers said both suppliers and consumers appeared to want to get as much oil on the water as possible before the New Year in case the agreement holds and forces up prices.

There was heavy demand for ships of all sizes from the Middle East Gulf to most destinations, although there was slight decrease in business towards the end of the week. The most recent VLCC fixtures reported on Friday were for 200,000 tons to the West at Worldscale 60, and 245,000 tons to Taiwan at Worldscale 75.

Earlier, brokers said a ship of 250,000 tons was fixed to the Red Sea at Worldscale 140. Several vessels in the million-barrels size were also fixed from the Gulf at lucrative rates such as Worldscale 137 for a part cargo of 115,000 tons for discharge in Australia.

In the 80,000 tons class, the latest reported fixture was for a cargo of 88,000 tons to Thailand at Worldscale 165.

Brokers said demand was so strong that it looked at one stage as though the supply of ships for the December market would dry up by the middle of the month. Several VLCCs and ULCCs were still uncommitted by the end of the week, however, and owners' rate demands were said to be falling.

Elsewhere, demand remained strong in West Africa, and rates rose sharply in the Mediterranean, where a cargo of 50,000 tons loading in Turkey for Mediterranean discharge was fixed at Worldscale 195. Rates were also strong in the Caribbean, where a cargo of 54,000 tons for US Gulf discharge was fixed at Worldscale 150 for US Gulf discharge.

The North Sea market fell back, however, and rates of around Worldscale 110 were being paid towards the end of the week for the typical 65,000 tons cargo for Continental discharge.

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OVERSEAS NEWS

Estonian Soviet set to defy Moscow

By John Lloyd in Moscow

THE Estonian Supreme Soviet (parliament) meets in the capital, Tallinn, today amid signs that its deputies are determined to defend their previous decision to retain power of veto over all Soviet laws, and will vote in the first stage of a new and autonomous programme for the Estonian economy.

Estonian government officials and members of the pro-autonomy popular front said they believed the Tallinn Soviet would refuse to adopt the decision of the USSR Supreme Soviet of last weekend, which ruled the law on the veto illegal.

However, they also commented favourably on the promises by Soviet leaders to compromise on initial drafts of new legislation on the relations between Moscow and the republics, which had been thought by a number of republican governments to be too restrictive.

At the same time, tension between the Estonian majority and the substantial Russian minority in the republic is growing. Meetings of workers in the main state enterprises – mainly Russians – held in Estonia last week, went much further than before, in expressing their hostility to the actions of the Estonian government.

In a rally in Tallinn on Saturday, the delegates passed motions condemning the Estonian right of veto over USSR legislation and a proposed new law making Estonian a state language.

The work collectives are allied to the international front, composed mainly of Russians and led by the directors of the state enteprises, which are themselves under the control of Moscow ministries.

The front is now beginning to push its nominees within the Estonian Communist Party, and is heavily supported by the national media. Pravda last Friday carried a piece by Mr Lembit Annus, editor-in-chief of the Estonian Communist, who characterised the bulk of the Estonian press as indulging in an "anti-Soviet bacchanal".

Opinion among Estonians is split as to whether the plan for putting the economy on a fully republican basis will or should go to the Tallinn Soviet this week.

Israel and KGB score coup on failed hijack

By Quentin Peel in Moscow and Andrew Whitley in Jerusalem

THE Soviet State Security Committee – the feared KGB – and the government of Israel yesterday appeared to have pulled off a considerable diplomatic and security coup, as four failed hijackers were bundled unceremoniously back into Soviet custody.

The return of the four from Israel to Moscow, within less than 36 hours of their arrival in Tel Aviv, resulted in an unprecedented mutual exchange of compliments between the two states. It comes at a moment when both are clearly interested in improving their diplomatic relations, broken off by the Soviet Union more than 20 years ago after the 1967 Middle East war.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, publicly met Mr Arie Levin, head of Israel's consular mission in Moscow, at the weekend to express his gratitude for the prompt Israeli response in returning the hijackers.

"We're grateful to the Israeli authorities for the goodwill shown by them and for the resolute checking of the unlawful act," Mr Shevardnadze said, according to the official news agency Tass.

Israelis yesterday basked in the unexpected warmth injected into the relationship by the exchange. The fact that Mr Levin should have been called in by Mr Shevardnadze to receive his thanks was itself cause for satisfaction. Since his arrival in early November, Mr Levin had been trying unsuccessfully to arrange much lower-level meetings with the Foreign Ministry.

There was no mistaking the urgency with which officials in Jerusalem worked to bring the affair to a speedy end. The operation amounts to a considerable success for the KGB, which took the unprecedented step of attending a press conference to explain its role after giving in to demands for an aircraft and money to leave the Soviet Union.

The four seem to have been caught as much by the one-sided nature of Soviet propaganda, which portrays Israel as such an enemy of the Soviet state that they assumed they could not be extradited from there.

Mr Shimon Peres, the Israeli Foreign Minister, said he had been given "a written commitment these people will not face death".

Qichen visit boost for Sino-Soviet relations

By John Lloyd

THE Soviet Union and China embarked on an important stage of normalisation of a relationship mired in enmity for 30 years with the visit to Moscow of Qian Qichen, the Chinese Foreign Minister, which ended on Saturday.

This first foreign ministerial visit since 1959 will be followed early next year by a trip by Mr Eduard Shevardnadze, the Soviet Foreign Minister, to Peking and, in the first part of 1989, a summit meeting in Peking between Mr Mikhail Gorbachev, the Soviet leader, and Zhao Ziyang, the Chinese Communist Party leader and Deng Xiaoping, the Chinese elder statesman.

At the same time, the two countries opened a dialogue on the biggest bone of contention between them – the occupation of Kampuchea by over 100,000 troops from Vietnam, the Soviet Union's close ally, and the Chinese backing of the Khmer Rouge guerrilla movement within Kampuchea.

Speaking at a news conference in Moscow on Saturday, mr Qichen said he believed his visit had touched off a process of normalisation which would be "multi-faceted". He added pointedly that the relationship could not go back to the fifties – when China was in effect under Soviet tutelage – but said: "We cannot allow more confrontation."

China had earlier insisted on a withdrawal of Vietnamese troops from Kampuchea as a precondition for closer relations with Moscow. This has clearly been dropped, and there was no sign that Moscow had agreed to put pressure on Vietnam to withdraw.

Shamir set to ask for more time

By Andrew Whitley in Jerusalem

MR Yitzhak Shamir, the Likud leader and caretaker Prime Minister, is expected today to ask President Chaim Herzog for three weeks more in which to form a new coalition government.

The Likud emerged, by one seat, as the largest parliamentary party in the November 1 elections. However, Mr Shamir has been unable so far to translate initial pledges of support from potential allies on the far right and among the small religious parties into a solid majority in the Knesset.

Following last week's rejection by Labour rank-and-file members of another broad coalition with Mr Shamir, the Likud resumed negotiations over the weekend with ultra-Orthodox factions, which hold the key to power for both of the major parties.

The talks were inconclusive, despite last-minute attempts by the Prime Minister to overcome accusations of bad faith levelled by the most right-wing of the three ultra-Orthodox parties, Agudat Yisrael. A written document presented yesterday to the party's Council of Torah Sages – its supreme authority – spelled out the Likud's commitments to its erstwhile ally.

It was Agudat Yisrael's unexpected switch of allegiance to Labour last week which enabled Mr Shimon Peres, Labour's leader, to climb back from near political perdition and claim to have secured enough support in the Knesset to block Mr Shamir's ambitions.

With neither the shaky Labour/Agudat Yisrael deal nor the resumed Likud negotiations looking capable of producing a government over the next few days, the role of the president as the arbiter of the Israeli political system will be decisive.

A longtime Labour politician who has stretched the prerogatives of his office to the limits, President Herzog is not obliged to grant Mr Shamir's request for an extension.

If he were to conclude that the Likud leader's chances will not improve with time, the president could transfer the responsibility of putting together a coalition to someone else.

This person would almost certainly be Mr Peres – although theoretically he could choose a compromise figure with demonstrable broad support.

After the similarly deadlocked 1984 elections, it took 45 days before the impasse between the two big parties was broken, with an agreement by the party leaders to take turns as Prime Minister. In the absence of fresh elections, such an outcome remains the most likely scenario this year as well.

Egypt ends its ban on flights by Libyan airline

By Tony Walker in Cairo

EGYPT has opened its airspace to Libyan commercial flights after a nine-year closure, in a further sign of Cairo's re-integration in the Arab fold. The decision to permit Libyan Arab Airlines to fly direct to Cairo was announced last night and comes amid a flurry of Arab diplomatic activity in preparation for a proposed Arab summit in Riyadh, Saudi Arabia, next month.

Arab mediation efforts are focusing on overcoming Syrian objections to Egypt's return to the Arab League at Riyadh. This coincides with reports of recent high-level contacts between Cairo and Damascus and a toning down of hostile Syrian media commentaries about Egypt.

Announcing the decision to allow Libya to resume direct flights, an Egyptian official said Libyan Arab could now "cross Egyptian airspace and the national airline can conduct regular flights to Cairo".

There was no immediate response from Libya. The decision follows recent signs of a slight thaw in relations, which have been icy since the two countries fought a brief border war in 1977. However, there is no hint of a formal resumption of relations.

Among Arab states, only Libya, Syria and Lebanon have not yet resumed full diplomatic relations with Egypt. Most of them suspended relations in 1979 in protest at Egypt's peace treaty with Israel.

Meanwhile, Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, held his fourth round of talks with President Hosni Mubarak of Egypt in two months as moderate Arab states sought to build on a more conciliatory line adopted three weeks ago by the PLO in Algiers.

Sri Lanka brings forward date of general elections

By Our Foreign Staff

PRESIDENT Junius Jayawardene of Sri Lanka, bowing to mounting pressure from the opposition parties, the Buddhist and Christian clergy, and a campaign of terror and economic disruption by the extremist Sinhalese JVP, announced this weekend that general elections would be held earlier than scheduled.

Speaking on Saturday on state television he said parliament would be dissolved on December 20, the day after presidential elections, and general elections would be held in February rather than the scheduled August date.

The announcement was praised by Buddhist and Christian leaders.

"We welcome the decision by President Jayawardene to dissolve Parliament and advance elections," said Venerable Palipanne Chandananda, whose post in the Buddhist hierarchy is the equivalent of a Christian archbishop.

The opposition, however, has strongly criticised the decision. They demand the dissolution of Parliament before a new president is chosen, claiming the Government is incapable of running a fair election.

Mr Kumar Ponnambalam, general secretary of the Ceylon Tamil Congress and spokesman for the Democratic People's Alliance, said the dissolution of Parliament after the presidential election was meaningless.

"Our main demand has been that Parliament be dissolved before, repeat before, the presidential poll on December 19, because all government machinery is being used by Prime Minister Ranasinghe Premadasa to continue his campaign for the presidency," said Mr Ponnambalam, whose alliance includes the largest opposition group, the Sri Lanka Freedom Party.

Economy continues to grow in US

By Anatole Kaletsky in New York

THE US economy continued to grow strongly in November, although exports showed signs of softening for the fourth consecutive month, the National Association of Purchasing Managers reported today.

The report, regarded as one of the most reliable early indicators of each month's economic performance, confirmed the picture of a strong, and possibly overheating, economy suggested in the US employment figures which shook the bond market last Friday.

The NAPM said its employment index increased to 57.9 in November, its highest rate since last December, and noted that some purchasers had "indicated difficulty in hiring new employees".

The NAPM's composite index, the most closely-watched figure, which is designed to foreshadow trends across all aspects of industrial activity, was 56.6 in November.

The index was slightly down on the 56.8 reported for October but comfortably above an average 56.2 in the first 11 months of 1988. This indicator would suggest a GNP growth rate of about 3.7 per cent, the NAPM said.

The indices for new orders, at 58.0, and production, at 58.2, were down slightly from strong October levels. But production, which the NAPM described as "brisk", was unchanged from its average of the previous three months.

The proportion of NAPM members reporting higher export orders, 22 per cent, was down from 26 per cent in October and lower than 37.8 per cent average of the first seven months of 1988.

IADB declares Peru ineligible for loans

By Veronica Baruffati in Lima

THE InterAmerican Development Bank has declared Peru ineligible for further loans and disbursements because of delay in payment.

This comes only six months after Mr Enrique Iglesias, IADB president, and President Alan Garcia were seen patting each other's back in Lima.

The bank was the only international organisation still offering Peru financial assistance but, according to Washington, Peru is six months behind in its payments. The government is expected to come up with $9m (£5m) today in payment of the first matured quota.

The IADB awarded Peru four credits totalling almost $70m in February 1987 for the electrical power sector.

President Garcia, on assuming power on July 28 1985, said Peru would not pay back debts in excess of 10 per cent of the value of its exports. Since then, Peru has not received credit from commercial banks.

Peru was declared ineligible by the IMF on August 15 1985, and the World Bank stopped disbursements to Peru in April 1987 because of its failure to pay.

● Peru's inflation rate for November was 24.4 per cent, according to the Peruvian National Statistics Institute.

This brings the January-November inflation rate to 1,184.5 per cent.

Split in Burma opposition

THE chairman of the main opposition group fighting for democracy in Burma has resigned after a row over possible communist influence, Reuters reports from Bangkok.

The National League for Democracy said General Aung Gyi, a collaborator-turned-critic of veteran leader Ne Win, resigned as chairman on Saturday after fellow members of the League's 42-member central council voted to reject his charges against eight council members of being communists or communist sympathisers.

Gen Aung Gyi, 70, had already established a separate group, the Union National Democracy Party.

The split in the League was considered by diplomats a serious blow for the emerging political opposition.

FT correspondents assess the outcome of the European summit in Rhodes which, the Ryan affair apart, achieved considerable harmony

Leaders pledge EC will not turn in on itself

By David Buchan, Tim Dickson and Andriana Ierodiaconou

MRS Margaret Thatcher's well publicised attacks on her Belgian and Irish counterparts over the Ryan extradition affair did not, in the end, set the tone of the European summit.

This turned out smoothly, though some of the subjects that surfaced – tax, social affairs, border controls, the Middle East – are sure to make waves next year. But on many of these topics the terms of the debate are changing.

At last, at Rhodes, the European Community squarely tackled the question of how its planned single market should relate to the outside world. The summiteers fed the seemingly inexhaustible foreign appetite for European Community free trade assurances with its most categoric pledge, to date, that the Community "will not turn in on itself".

The key assertion was that "the internal market will be a decisive factor contributing to greater liberalisation in international trade on the basis of the Gatt principles of reciprocal and mutually advantageous arrangements". It was the first such EC pledge set in the Gatt context, and constituted, as Mrs Thatcher put it, "a good message" to this week's Gatt meeting in Montreal.

This was the most significant signal sent out from Rhodes, even if member states displayed their individual differences in the drafting of it. In the end, the gut free-traders like Chancellor Helmut Kohl and Mrs Thatcher and instinctive protectionists like Mr Andreas Papandreou and President François Mitterrand were able to find the right compromise formula.

The most distinctive feature of this communiqué was that, for the first time at an EC summit, what it had to say on *strictly Community* foreign policy outweighed what it had to say to the rest of the world as an amalgam of 12 nation states.

Rightly so – because what the leaders have to say on foreign economic relations with Gatt and partners like the US, Japan, European Free Trade Association (Efta) countries and Eastern Europe is of more practical significance than the pronouncements on the Middle East, Cyprus, Lebanon - problems which Europe is relatively powerless to influence.

What was more surprising, though, was the extent to which, this weekend at least, EC leaders managed to finesse their many intrinsic disagreements on internal Community matters.

Three issues are particularly divisive – tax harmonisation, social affairs and removal of internal EC border checks – and all three were raised as leaders took stock of what had been achieved at this half-way point to 1992, the date set for completion of the single market.

"The age of absolutism is over," commented one UK official as Rhodes showed up changes in some of the battle lines. On tax, Mr Jacques Delors, the European Commission president, acknowledged that harmonising savings taxes was both more urgent and difficult than bringing indirect tax rates together.

If so, France may displace the UK at the centre of the tax harmonisation debate, with Mr Mitterrand openly threatening to block capital liberalisation as long as Frenchmen have an incentive to shift their highly-taxed savings to low-tax havens like Luxembourg.

One sign of waning absolutism was the communiqué's stress that progress towards free movement of people in a frontier-free Europe depends on governments improving their collaboration to combat crime.

Each national leader promised to appoint a special representative to co-ordinate the work going on in different groups, outside as well as inside the Community, on controlling terrorism, drug trafficking, illegal immigration, and on working out common visa, asylum and immigration policies.

Fresh from her stormy meetings with Prime Ministers Charles Haughey and Wilfried Martens, Mrs Thatcher said: "It's not co-ordination, but fundamental decisions, that matter." None the less, the UK sees the co-ordination move as a positive step, which may be acted on as early as this Thursday when EC interior ministers are to meet in Athens.

One explanation for Mrs Thatcher's relaxed performance – and indeed for the non-confrontational nature of the summit – was the absence of any direct reference to, or discussion of, her now notorious Bruges speech in September in which she set out her controversial views on the future of Europe.

It was almost as though Bruges was a taboo subject. Just as intriguing, though, is the British argument that the new doubts which crept in to some of the discussions at Rhodes, the new willingness to slow down the debate in certain areas, are the result of the Thatcher agenda entering the Community bloodstream.

However, the fundamental reason for relative harmony at Rhodes was that this summit did not try to take any key decisions. That will come next year during the Spanish and French presidencies of the EC, which will turn on the pressure for decisions on social, monetary and tax decisions. Rhodes could prove the calm before the storm.

Thatcher and Papandreou: succeeded in finding compromise formula at the Rhodes summit

Cypriot government will seek EC membership if UN talks fail

By Andriana Ierodiaconou

IF UN-sponsored peace talks for a Cyprus settlement collapse, the Cypriot Government will promptly apply for full European Community membership and call for the direct involvement of the Twelve in ending the division of the Mediterranean island republic.

Greek-Cypriot sources, speaking on the margins of the Rhodes EC summit, said that under normal circumstances, the Cyprus Government would prefer to wait until the Community signalled its readiness for another wave of enlargement before tabling an accession application.

However, the sources said a breakdown of the peace talks would constitute an emergency situation, warranting an earlier application move.

They meanwhile hailed a call by the European Council in Rhodes for rapid progress towards a Cyprus settlement based on UN resolutions.

The talks began last September and are working to a deadline of June next year. The first round ended inconclusively last month. The talks will resume on December 19.

In the second round, the two sides will table a range of non-binding options on the key aspects of a settlement.

The interlocutors will then try to construct a federal settlement plan. They will select from among options in a meeting with the UN Secretary-General, Mr Javier Pérez de Cuéllar, in New York in March.

The northern third of Cyprus was invaded and occupied by Turkish troops in 1974, in the wake of a Greek military coup on the island.

France backed on TV standard

By Tim Dickson

PRESIDENT François Mitterrand of France won general support from other leaders at the Rhodes summit for efforts to promote the European standard for high definition television (HDTV) and European programme making.

The French leader returned to his favourite theme that Europe will lose a key commercial and cultural battle if it lets Japan dominate the next generation of television hardware and the US television software.

With particular support from Chancellor Helmut Kohl of West Germany, he got the summit communiqué to refer to the "extreme importance" of developing "Europe's audiovisual capacity", with an appendix which gives details of a French plan for an "Audiovisual Eureka".

As with the 1985 launch of the Eureka scientific programme, France has announced it will host a conference next spring bringing together governments, TV networks and programmers from all European countries, including the Soviet bloc.

This opening to the East has attracted West German political support, while the French commercial interest is evidently to secure the eastern market for its companies, such as Thomson.

French officials predict that some 80 per cent of TV sets will be replaced in the next 15 years and fear the supplier will be Japan if Europe does not collaborate.

Spanish union expels leaders over strike

By Peter Bruce in Madrid

SPAIN's biggest trade union, the socialist UGT, which is leading a general strike on December 14 to protest at socialist government employment policies, is struggling to contain dissent within its ranks and has been forced to expel union leaders who have come out against the strike.

The expulsions are the first evidence of intense lobbying within UGT ranks by the Government of Mr Felipe Gonzalez to weaken the position of the UGT leader, Mr Nicholas Redondo, who last month rebelled against the union's fraternal party and joined forces with the communist CCOO union to call the strike.

At the same time, Mr Gonzalez, in an interview published yesterday, has strongly denied rumours that he might call an early general election if the strike is successful. The unions want to protest against government plans to implement a scheme to find jobs for 800,000 youths in the next three years by allowing employers to pay them minimum wages without guarantee of long-term jobs.

The UGT leadership, however, has been scrapping with the Government for three years over job creation and tight wage policies, which it sees as a betrayal of the socialist promise once held out to workers by Mr Gonzalez.

Last Thursday it expelled the leaders of its farm workers' division and on Friday the leaders of its wealthy chemical industry affiliate were expelled for coming out in support of the Government.

The dissent has infuriated and embarrassed Mr Redondo, whose position now depends on the success of the strike. But while the turnout of only 25,000 youths to a UGT-CCOO demonstration against the employment scheme in Madrid last week was below expectations, observers expect the strike next week to be effective. The unions want to bring the capital to a standstill.

West German Greens move closer to split

By David Goodhart in Bonn

WEST GERMANY'S faction-ridden Green Party took a step closer to splitting at the weekend when the party executive – dominated by the fundamentalist "Fundi" wing – resigned after losing a confidence vote unexpectedly.

The vote, 214 to 186 against the executive, at a special conference on next year's European elections was nominally over the handling of the financial scandal which has been rumbling since June. Although only small sums of money were allegedly appropriated, the scandal has damaged one of the Greens' greatest assets – their purity.

Behind the argument over misappropriation lies the deep political split between the pragmatic "Realo" wing, ready to abandon purist policies in exchange for political power, and the leftist Fundis.

The Realos, who already dominate the Green group in the German Parliament, now hope to take control of the executive when new elections are held in February. The Fundi wing might then peel off, leaving a smaller Realo-dominated party which would try to revive the option of deals, at regional or national level, with the Social Democratic Party.

But to remain a political force the Fundi-less party would have to win more than 5 per cent of the national vote. At the last election the Greens won more than 8 per cent.

US-Europe trade disputes discussed in Brussels talks

By John Wyles in Brussels

LEADING businessmen and parliamentarians from both sides of the Atlantic launched an exercise in joint consultation and communication yesterday to try to help minimise political and commercial disputes between Europe and the US.

The US/EC Advisory Business Group met for two days in a hotel near Brussels at the weekend and plans to convene again next summer to develop a debate which ranged over the Community's 1992 internal market programme, trade and competition problems with Japan and East West relations.

"We identified the need some time ago for better channels of communication between businessmen and policymakers," said Mr James Elles, Conservative MEP for Oxford and Buckinghamshire and a chairman of the American-European Community Association's European parliamentary committee.

He said that 18 months of preparation had gone into the weekend meeting and that participants had unanimously agreed that it should be the start of a regular series of contacts.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1980 = 100)

	Nov.'88	Sept.'88	Aug.'88	Nov.'87	% change over previous year
W.Germany	122.9	122.7	122.6	121.1	+1.5
Japan	117.5	118.1	117.0	115.6	+1.6
US	145.5	144.9	144.4	139.6	+4.3
	Oct.'88	Sept.'88	Aug.'88	Oct.'87	
Italy	224.8	223.3	222.2	214.7	+4.7
Belgium	147.1	147.0	146.9	145.2	+1.3
UK	163.8	162.2	161.4	153.9	+6.4
Netherlands	124.3	124.3	123.9	123.6	+0.6
France	173.5	173.1	172.7	168.5	+3.0

Source: (except US) Eurostat

Hong Kong lifts prime half-point to 10% today

By John Elliott in Hong Kong

HONG KONG's prime lending rate goes up by half a percentage point to 10 per cent from this morning. This was decided on Saturday by the territory's Association of Banks.

"We have raised the rate because Interbank rates have gone up in the last couple of weeks, and there is a general trend for higher rates in the US and the UK," Mr Chris Pavlou, chief treasury manager of the Hongkong and Shanghai Banking Corporation, said yesterday.

The move was in line with the Hong Kong Government's policy of maintaining a peg between the colony's dollar and the US dollar. Last Thursday the Government indicated that it wanted interest rates to rise after the US had increased its prime rate by half a point to 10.5 per cent. Using central banking powers which it took over from the Hongkong Bank in the summer, the Government reduced money supply by taking HK$20m (£1.4m) out of the interbank system.

The five-year old policy on the dollar peg has come in for criticism recently. Mr David K P Li, Bank of East Asia chief executive, last week warned that the peg could mean the depreciating US dollar leading to higher interest rates.

It could also raise inflation, which is expected to reach 10 per cent in a couple of months.

However, the Government said there would be no change in the policy. On Friday the HK dollar rose to 7.8030/35 to the US dollar from 7.8037/47 because of expectations of a higher prime rate.

HK Basic Law protest

By John Elliott

MORE than 500 demonstrators led by Mr Martin Lee, a prominent liberal Hong Kong lawyer and legislator, yesterday marched to the offices of Peking's unofficial embassy, the Xinhua News Agency, and burned copies of the draft Basic Law which will govern the colony after it reverts to Chinese sovereignty in 1997.

They were protesting against clauses which would give Peking virtual control over who becomes the first chief executive of the new Special Administrative Region of Hong Kong in 1997 in place of the present British governor.

They also object to proposals which provide for subsequent chief executives being chosen by an election committee rather than universal suffrage.

Spanish machine tool makers face new challenge

Their fate will test the single market's ability to invigorate remote areas, Peter Bruce writes

THE lush mountains of Elgoiherri, just behind San Sebastian, have for decades been a recruiting ground for the Basque separatist organisation Eta. They are are also home to most of Spain's booming machine tool industry.

The Spanish first made tools here in 1885. A second arm of the industry in Catalonia has gradually withered in favour of the textile trade and some 75 per cent of Spanish producers, who rank 10th in the world, now cluster in the Basque country.

The heart of this community is contained in a triangle formed by Azcoitia, Azpeitia and Elgoibar, small towns that would probably never have amounted to anything if the Spanish Civil War had not ended just as World War II began. The Spanish were forced to rebuild their shattered industries using their own machine tools. By 1969, 10 years after Franco gave new impetus to the economy by opening it up, some 350 machine tool makers were in production.

About 140 survivors remain and now a new test – the opening up of European Community markets by the end of 1992 – is on the horizon. Small, often undercapitalised and vulnerable, they are approaching the new world with trepidation. The Basque country, with the highest unemployment rate in Spain, is not a place many industrialists would choose to start life in.

"They are scared but prepared," says Mr Alberto Ortueta Azcarreta, director-general of the Spanish Machine Tool Producers Association in Bilbao. "We may be small but we are flexible. Our market share will never fall below 50 per cent."

That is quite a boast. British producers have less than 40 per cent of their market but the Spanish – because their home market was not considered interesting by the Japanese 10 years ago – never suffered the powerful attacks that the British and West Germans did.

Spanish machine tool consumption is growing faster now than anywhere else in

If Spanish producers remain confident, the secret probably lies in the little engineering towns

Europe. Domestic consumption grew by 87 per cent to $606m (£336m) last year and totalled nearly $400m in the first half of this year. Imports, spurred by the country's rapidly growing economy and by the arrival of big foreign manufacturers, grew by 137 per cent to $250m in 1987 and totalled $150m in the first six months of this year. Spain's machine tool exports grew only 22 per cent to $218m last year and 12 per cent more to $122m in the first half of 1988.

If the Spanish producers remain confident about their future in the face of this new competition, the secret probably lies in little engineering towns like Azcoitia and the engineering culture that surrounds it. Mr Jose Maria Uria, for example, started by making simple presses but moved into broaching machines.

His business, Lizuan, employs around 15 people in good years and turns over some Pta 150m (£715,000) a year. He says he is not scared of 1992. "We are very small and we can defend ourselves," he says. Mr Uria, like many of the smaller producers – some employ just five or six people – make their living by supplying machines to clients, often other machine tool makers. If the industry was spread widely about the country as in West Germany or Britain, survival would be much harder.

At the other end of the scale, some of the big producers are as muscular as any of their EC competitors. Danobat, a co-operative just outside Elgoibar, employs more than 500 people in three plants and nearly doubled its sales to Pta 4.2bn between 1984 and last year. The country's biggest producer with a product range to match, it has also just become the first Spanish machine tool manufacturer to sell a complete computer controlled flexible manufacturing system abroad – in this case, a gearbox line to a Czech tractor plant.

"The export market will not change much after 1992," says Mr Juan Almiral, a senior Danobat sales executive. "The big difference will be in favour of Europeans selling here."

That may be true, especially if foreign investors continue to draw in machine tools from their own countries. But the Spaniards have already had to weather a dramatic reduction in import tariffs, which have fallen from 35 per cent to just 8 per cent since Spain joined the Community in 1986.

For the smaller producers, though, there are compensations. "The components we have to buy in the EC, like motors from West Germany, will be cheaper when the tariffs disappear," says Mr Jose Maria Sagarzazu, finance director with Ibarmia, a drilling machine producer employing 47 people in Azcoitia.

While many big European competitors have been forced to abandon simple volume products to concentrate on those with better profit margins, the small Spanish producers have tried to hold on to their traditional clients.

Sprint, a lathe producer in Azpeitia, has suffered problems that typically prey on small family businesses. It was founded in 1959, but its long-serving technical director died three years ago, not long after the company decided to broaden its product range and build CNC (computer numerically controlled) lathes as well. "It left us without our father," says Mr Cincunegui. Turnover is relatively small at Pta 500m a year, "and we have to finance ourselves. The banks only lend money to the people who already have it."

Mr Urbano Conde, a rugged engineer, started his company, Kondia, in Elgoibar in 1952 doing contract work for local component manufacturers, and has enjoyed relative success. Business blossomed 10 years later when he travelled to the US and contracted dealers on the East and West coasts. Now an important milling machine and CNC producer, Kondia employs 100 people and its sales reached Pta 1.5bn last year. Mr Conde began making machining centres just six years ago and already they account for 60 per cent of his turnover.

The decline of the dollar against the peseta in the past few years has hurt Spanish exporters. The US has been overtaken by West Germany as the biggest export market but the high rate of sales to two such demanding markets, say local manufacturers, is testimony to the quality of their products.

"We are better than the new Asian producers," says Mr Cincunegui at Sprint. Mr Ortueta at the industry association says the arrival in Spain of Ford and GM in the 1970s made a "decisive contribution" to local standards. "We had to begin to work with much greater precision and quality," he says. Allowing for some self-publicity, the assertion by Mr Almiral at Danobat that "the pace of technological change in Spain has been faster than anywhere else in the world" has a plausible ring about it. Ona, based in Durango just west of Elgoibar, is already the EC's biggest producer of spark erosion machines, a technology that is rapidly challenging traditional milling methods.

The Spanish did come slightly later than the big EC rivals to attaching computer controls to their machines but their strength remains their ability to do so and maintain their positions in more simple technologies as well. While Estarta and Ecenarro's special purpose machines do well in the domestic market, its exports are led by its traditional core business, grinding machines. Ibarmia has moved into CNC machining centres recently but its main business remains drilling machines. "We don't want to leave drilling machines," says Mr Sagarzazu, "but we want to have a machining centre capability as well."

The lowering of tariffs ahead of 1992 also means that the leading computer controls like Siemens or Fanuc will be cheaper to import. Fagor has begun producing a domestic control but it has not yet won wide acceptance among export customers.

But lower tariffs and Spain's happy economic condition are proving double-edged swords. Producers like Mr Sabatie at Estarta and Ecenarro complain that American competitors and other manufacturers have begun to flood the hungry Spanish market with cheap second-hand machine tools.

Spain's machine tool builders are not the only such small, close-knit industry in the EC. But the fact that they mostly huddle together in a poor, troubled corner of the new Europe means that their fate will be a test of the Single Market's ability to invigorate and revive beyond the big centres of political and economic power.

Spanish tool industry

US$million	1986	1987	% increase
Shipments	396.2	575.0	45.1
Exports	178.6	218.8	22.5
Domestic	217.6	356.1	63.0
Imports	105.8	250.6	136.8
Total consumption *	323.4	606.8	87.6

* Domestic & Imports

Source: Association Espagnola de Fabricant de Maquinas-Herramienga

1992 THE EUROPEAN MARKET

UK NEWS

Young expected to change rules on share declarations

By Philip Stephens, Political Editor

The Government may this week announce plans for legislation to lower the current 5 per cent threshold at which shareholders must declare their stakes in public companies.

The move, which would make takeovers more expensive by reducing the shareholdings that predators could build up before declaring their hand, would be incorporated in the new Companies Bill which the Government hopes to publish before Christmas.

It is thought that Lord Young, Trade and Industry Secretary, is considering a reduction in the share declaration threshold to 3 per cent.

He may choose the launch on Wednesday of a guide to the Government's mergers policy to announce the change. Otherwise, the announcement will come next week.

Such a reduction would not, however, signal any softening of the Government's rejection of calls from the Confederation of British Industry (CBI) and from the Labour Party for it to take a more interventionist line in blocking hostile bids, particularly from overseas.

Lord Young

Lord Young will make clear that, except in exceptional circumstances, the Government will intervene only if there is a clear threat to competition.

Overall, Lord Young appears to regard the CBI's representations essentially as attempts to protect the "sitting tenants" on company boards from the disciplines and incentives imposed by the threat of takeover.

Against that background, a move to lower the 5 per cent threshold would be presented purely as a move to increase the "transparency" of stock market transactions rather than to bolster the defences of takeover targets.

The Companies Bill will also include several measures to streamline procedures for non-controversial mergers.

A document issued by the Department of Trade and Industry earlier this year said that, under the Government's policy of leaving most merger decisions to the market, "it is important that adequate information should be available for the market's assessments and decision."

Accountants seek rules on valuing brands

By Richard Waters

URGENT guidance on how companies should account for brands and other intangible assets has been called for by senior accountants representing Britain's leading professional bodies and accountancy firms.

Ranks Hovis McDougall, the food and drinks group, broke new ground two weeks ago when it became the first large UK company to value its existing brands. Accountants say that many others are planning to follow suit.

Valuing such assets increases a company's reported shareholders' funds and thus automatically improves its gearing (the ratio of borrowings to shareholders' funds).

The fact that there are few rules on how companies should do this will lead to a free-for-all in which companies will adopt the method that suits them best, accountants fear.

This emerges from a straw poll of 12 accountants who, as technical directors of leading accountancy firms and professional bodies, are representative of the profession's views on technical accounting issues.

They are unanimous in calling for guidance from the Accounting Standards Committee (ASC), since few rules exist in this area. However, several questioned whether the ASC has the resources or the will to act quickly.

Mr Michael Renshall, ASC chairman, said that he had called for a paper on the subject for the committee's next meeting, on December 14, and hoped to be able to make a statement on it. However, he said that he could not promise any guidance.

A main area of concern is that some companies intend to value intangible assets other than brands.

Accountants say that some of these, such as a company's name, are difficult to identify as separate assets.

Also of concern is that companies want to keep any decline in value of assets such as brands from affecting their profits in future years. Several accountants claim that this is an attempt to "have it both ways" and should not be allowed.

Grants fail to influence skills plans

By Jimmy Burns

UK GOVERNMENT grants and other incentives have done relatively little to persuade companies to develop training programmes, according to a report commissioned by the Department of Employment.

The department commissioned the report, which appeared in the December issue of the magazine Personnel Management, from a research team at Warwick University. It analyses influences on the growth of a company's training and development activity.

"External sources of finance to offset training costs appear to be a relatively weak influence on firms' propensity to train," it states. "Among the recipients of grants, the general view is that that grants make no difference, or only a marginal difference, to the training they do."

The authors of the report identify as one of the most important influences the existence of a "positive culture for training" within the company itself.

Employers to head new training scheme

By Charles Leadbeater, Labour Editor

MR NORMAN Fowler, UK Employment Secretary, is today expected to publish a white paper (policy document) on training, which will set in motion the most radical overhaul of the British training system since the creation of statutory Industrial Training Boards in 1964.

The white paper will give employers a big role in setting training priorities and deciding how government finance for training should be spent. The scheme is modelled on practices in the US.

It will replace the national, tripartite decision-making over training, which gave trade unions an important role, with a local, private, employer-led system.

The white paper's centrepiece will be a plan to create about 100 local Training and Enterprise Councils. The councils will be introduced gradually over the next five years.

Much of the Department of Employment's £3bn-a-year training budget will eventually be disbursed to the councils. It is thought each council may have an annual budget of about £20m to £25m to spend.

Private sector employers will have an overwhelming majority on the councils, with about two-thirds of the seats on governing bodies. The remainder will be made up by union officials, local councillors and educationalists chosen by the employer majority.

The plan is certain to provoke protests from Labour local authorities and some Conservative-controlled councils, as well as trade unions.

The training bodies will be modelled on private industry councils in the US. The councils will not provide training, but will instead assess local training needs. They will then draw up plans to meet the needs and arrange contracts with local training providers. The councils will only receive the money if they can meet performance criteria.

Most of the council's finance will be provided by the Government but employers will be increasingly expected to contribute their own money.

Time to change, Page 18

Lamont supports fiscal policy role in economy

By Philip Stephens, Political Editor

MR Norman Lamont, Financial Secretary to the Treasury, yesterday dismissed suggestions that the Government was totally ignoring fiscal policy in setting its economic strategy.

In a weekend speech aimed at deflecting recent Labour Party attacks on the Government's reliance on high interest rates to contain inflation, Mr Lamont said: "The Government fully recognises the role of fiscal policy."

What it was firmly against, however, was "short-term tinkering with tax rates in hasty judgments that are nearly always wrong. That was the history of the Labour Party's never-ending series of mini-budgets."

So, while the Government had recognised the importance of fiscal policy from the start, it had sought to put it in a medium-term context and had recognised the importance of tax reform in improving the supply side of the economy. Labour's claim that cuts in higher tax rates in the last Budget were behind the deterioration in the trade position were "patently absurd."

Mr Lamont's comments reflect an acknowledgement in the Government that its recent public emphasis on interest rates as the key short-term instrument for the control of inflation may have intensified criticism on its own back benches as well as from opposition parties.

Mr Nigel Lawson, Chancellor of the Exchequer, has already made clear that he is planning for a large budget surplus again next year and that he regards the scope for tax cuts in the Budget as likely to be limited.

At the weekend, Mr Neil Kinnock, the Labour leader, again attacked the recent rise in borrowing costs to 13 per cent as likely to provoke higher, not lower, inflation and further damage Britain's trade position.

He said: "The very strategy chosen by Nigel Lawson to combat the problems of inflation and imports will push up costs and help importers."

Banker calls for weaker pound to reduce deficit

By Michael Prowse

SOME DEPRECIATION of the pound to restore lost competitiveness is necessary if Britain's current-account deficit is to be significantly reduced next year, according to Mr Christopher Johnson, chief economic adviser to Lloyds Bank.

In the December issue of the bank's Economic Bulletin, out today, he says the Treasury should aim to reduce the external deficit next year by about £4bn, or 1 per cent of gross domestic product. That would require a fall in annual domestic demand growth from 6 or 7 per cent to only 1½ per cent.

The weaker pound will help to revive the growth of exports and curb the expansion of imports. Mr Johnson says exports need to grow by 8 per cent next year compared with 1½ per cent this year. Import growth needs to fall from 12 per cent to 5 per cent.

Last week, in evidence to the Treasury and Civil Service Committee, the Chancellor of the Exchequer reiterated his commitment to a strong pound as an anchor on inflation.

Mr Johnson says the Treasury's prediction of a £13bn current-account deficit this year is probably too high. The true figure may be nearer £7½bn.

On present policies, Mr Johnson says, any large reduction of the deficit will be postponed until 1990 or later.

While a continuing deficit could be financed for some years, foreign confidence would be enhanced if the deficit were seen to be moving in the right direction.

Farmers head for Royal Smithfield

By David Richardson

FIFTY thousand farmers are expected in London this week. Most will head straight for the Earls Court exhibition centre, where the Royal Smithfield Show begins its four-day run this morning.

Originally a fatstock show, the Smithfield has become Britain's main winter shop window for farm machinery. More than 300 manufactnrers have squeezed their products into the cramped hall in the hope of attracting customers.

Hundreds of cattle, sheep and pigs are on display as well, as farmers compete to produce the best meat animal in its category.

This year the organisers have limited the numbers of cattle in particular to fewer than 400, compared with more than 500 in 1987. Expansion plans for the Earls Court building are progressing slowly and in the meantime floorspace has been reduced.

It is perhaps a paradoxical but fortunate coincidence that this has occurred when UK beef production has fallen to a 15-year low and average farm income has declined to its lowest post-war level.

Overall, however, according to Mr Doug Walker, president of the Agricultural Engineers Association, unit sales of tractors this year are forecast to rise by 12 to 15 per cent to 22,000 while those of other machinery will rise 10 per cent.

However, the improvement has been lopsided, with tractor sales to livestock-based farmers – mainly in the west of England – almost doubling from a low base, while arable farmers in the east have cut purchases by about a third.

British machinery manufacturers at the show were modestly optimistic that the improvement in sales would continue into next year. Beyond that, they are licking their lips at the prospect of 1992 and the 9m agricultural holdings in Europe to which they will gain easier access.

Outside the exhibition hall yesterday, about 100 members of various animal welfare groups protested against eating meat and factory farming.

Accountants grapple with intangible assets

Richard Waters on companies' craze for including ever more items in their accounts

VALUING "intangible" items such as brands is set to become an uncontrollable craze in the coming months, according to the dozen senior technical accountants who took part in a straw poll at the end of last week.

Many more examples of this accounting fashion are set to appear – and they will push the boundaries of companies' accounts, and readers' credulity, far further than at present, the accountants believe.

More important than the range of devices that will emerge is the fact that the accountants feel they are losing control: without clear rules to back them up, auditors will find it difficult to influence the accounting policies companies choose.

The Accounting Standards Committee has not committed itself to action, but is considering issuing rules. "To the extent that we are seeing different approaches being used that produce very different figures, we are concerned," said Mr Michael Renshall, its chairman, at the end of last week.

Two subjects are making the accountants particularly worried. The first is what counts as an "intangible asset." If a company can identify one of these and give it a value, auditors can do little to resist its appearance in the accounts.

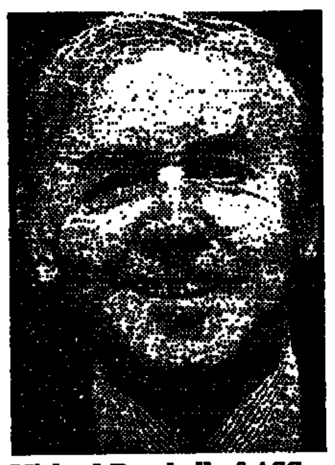
The only guidance at present is that anything that can be sold separately from the business as a whole can be shown in the accounts. Examples given in the 1981 Companies Act are: "Concessions, patents, licences, trade marks and similar rights and assets."

The ASC has since added publishing titles, franchise rights and customer lists. That is prompting some companies to think creatively about other intangibles.

One is a company's name itself – a possibility being considered by WPP, the advertising group. The idea left accountants divided last week. Purists say a company could, in theory, sell its name and continue in business under a new one.

Others, however, argue that valuing the name is a way of putting a value on a company's goodwill itself, since much attaches to the name. Also, a name could never be sold in practice, they say.

Other, more bizarre "assets" might soon start appearing in some companies' accounts; for instance, customer lists and distribution channels.



Michael Renshall of ASC: "we are concerned"

Once the process starts, it is hard to see where it will stop, the accountants say. US companies provide some indication.

A 1987 review of the accounting policies of the 600 largest US companies, undertaken by the American Institute of Certified Public Accountants, identified more than 200 examples of separate intangibles other than goodwill appearing in the accounts.

Examples included software, customer lists, drawings, purchased technology, and covenants not to compete. When will these appear in the UK? And how much more creative will UK companies be?

The second matter of concern is that UK companies, if they value intangibles, are not forced to write them down against profits in the future – unlike US companies, which must write them off over no more than 40 years. Ought companies to have such freedom to show whatever assets they like, yet be allowed not to take any extra cost against profits?

Ranks Hovis McDougall, the first to pronounce on the subject, said that any fall in value shown up by a three-yearly revaluation of its brands would not be shown against profits. Nor would it apply a regular annual depreciation charge.

That prompted several accountants last week to cry "foul." Brands, like all other assets, wear out in the end, they claim. One-off falls in value are simply another form of regular wearing-out charge, and should be set against profits.

A further debate is brewing over how intangibles are valued. The accountants are separating into three camps, those holding: that the value should be based on costs previously incurred; that it should be the discounted value of future profits from the asset; or it should be the replacement cost (ie market value).

The differences thrown up by these different methods provide interesting food for thought. RHM, for instance, claimed that its method (a form of economic value built on current, rather than future, earnings) showed the existing value of the brands to the business. Its assets were actually worth far more than that, it claimed.

The implication of that is that the replacement cost of the brands exceeded their economic value. And that, as any economist will confirm, is a sure sign that a company should sell the assets in question and move into some other line of business.

Companies may choose what intangible assets they value and how they do it, but they should at least be aware that they may be opening a Pandora's Box in the process.

Corporate contributions to Conservatives double

By Clay Harris

BRITISH COMPANIES more than doubled their contributions to the Conservative Party to a record £4.53m in the year to March, according to the annual survey of political donations by the Labour Research Department, an independent trade union organisation.

The total, given by 333 companies, compared with £2.09m donated to the Conservatives in 1986-87 by 235 companies. It also topped the previous record of £2.7m given in 1983, which like 1987 was an election year.

By contrast, the constituents of the former SDP/Liberal Alliance received £114,248 in total from 23 companies. For the first time since the early 1980s, a corporate donation was reported to the Labour Party: £1,000 from bingo hall operator Singleton Holdings.

The six largest donors to the Conservatives were George Weston Holdings – controlling shareholder of Associated British Foods – (£150,000), British & Commonweath Holdings (£137,000), Hanson (£102,000), P&O and United Biscuits (£100,000 each) and Allied-Lyons (£97,200).

More than £1m of the Conservatives' total came from 115 companies either making their first donation or resuming the practice after a gap of at least two years.

Those contributors included Whitbread (£76,500) and Consolidated Gold Fields (£75,000). Giving £50,000 each were the privatised Rolls-Royce and British Aerospace groups, General Electric Company (its first donation since 1980), Unigate and Williams Holdings.

Labour Research, December 1988. 78 Blackfriars Road, London SE1 8HF. £1.40.

Postage stamps to go on sale in 35,000 shops

By Hugo Dixon

PEOPLE will be able to buy stamps in 35,000 shops around the country from next summer as part of a package of improvements in the service announced by the Post Office at the weekend.

The scheme will more than double the number of outlets where stamps can be bought. Likely outlets are branches of W. H. Smith, Woolworth and John Menzies as well as small newsagents and stationery shops.

At present, stamps are sold only in the nation's 21,000 post offices.

The plan to make stamp buying easier follows pressure from consumer groups.

The Post Office will also be installing fast sorting machines in 15 of its centres, capable of handling 32,000 letters an hour.

BAe and Thomson-CSF may talk on collaboration

By John Griffiths

BRITISH Aerospace and Thomson-CSF of France may next year resume talks on possible collaboration in the defence and aerospace sectors which ended inconclusively in March.

However BAe said yesterday that the talks, if they were to be reopened, would form only part of a developing matrix of contacts between Europe's aerospace and defence groups aimed at finding ways to create a more competitive European industry by the early 1990s.

BAe likened the tentative nature of BAe-Thomson contacts so far to that of the talks to be held shortly between Sir Roland Smith, BAe's chairman, and Mr Edzard Reuter, chairman of Daimler-Benz of West Germany.

These are being held at the instigation of Mr Reuter, who has suggested that collaboration between European companies in the sectors could be strengthened by a network of cross-shareholdings.

BAe is sceptical about the concept, but at least wants to discuss the ideas of Mr Reuter, who has also been in contact with other companies in the UK such as Plessey, Marconi and General Electric Company, as well as Aérospatiale, Dassault and Snecma in France and Fiat in Italy.

A firm date has yet to be fixed for the Smith-Reuter meeting.

BAe denied reports that the initial talks with Thomson had resulted in an agreement to set up a joint marketing company in the defence sector but that a formal announcement of the venture had not been made then because of BAe's takeover of the Rover cars group.

Water flotation raises fears for the environment

By Richard Evans

SUBSTANTIAL worries about the environmental effects of the Government's water privatisation proposals are disclosed in a report published today, two days before the Water Bill starts its passage through parliament.

The anxieties are likely to form the basis of a wide-ranging attack on the bill, which seeks to privatise the 10 regional water authorities in England and Wales in November of next year.

Research conducted by Leeds University for the Council for the Protection of Rural England and the Royal Society for the Protection of Birds highlights seven areas of potential environmental concern, supported by examples from around the country.

They include possible change of use of undeveloped land, backdoor development by misuse of the planning process, under-investment in pollution measures, lack of commitment to the control of agricultural pollution and the effects of extracting too much water from a given source.

"The important findings demonstrate that amendments to the Water Bill are essential if serious environmental damage is to be prevented," the CPRE and RSPB said in a joint statement.

The research will be welcomed by the Opposition, which is seeking to fight the bill on a broad front. One of the best chances of attracting support in the Lords and among Conservative backbenchers is by emphasising any environmental drawbacks to the flotation.

Dr Art Lance, RSPB conservation director, and Mr Andrew Purkis, CPRE director, said the Government's proposals were without precedent, so there was no international yardstick against which to judge their effect.

It was also not clear that ministers had examined the full environmental implications of water privatisation, they said.

"Our scrutiny . . . does not yet permit us to reassure parliament or the public at large that the safeguards written into the bill are adequate to counter the potential threat to the environment."

The Leeds researchers, in a paper called Liquid Assets, point out that the Government's arguments rest on general support for privatisation as a means of improving cost efficiency, and a belief in market competition as the best regulator of service and capital efficiency.

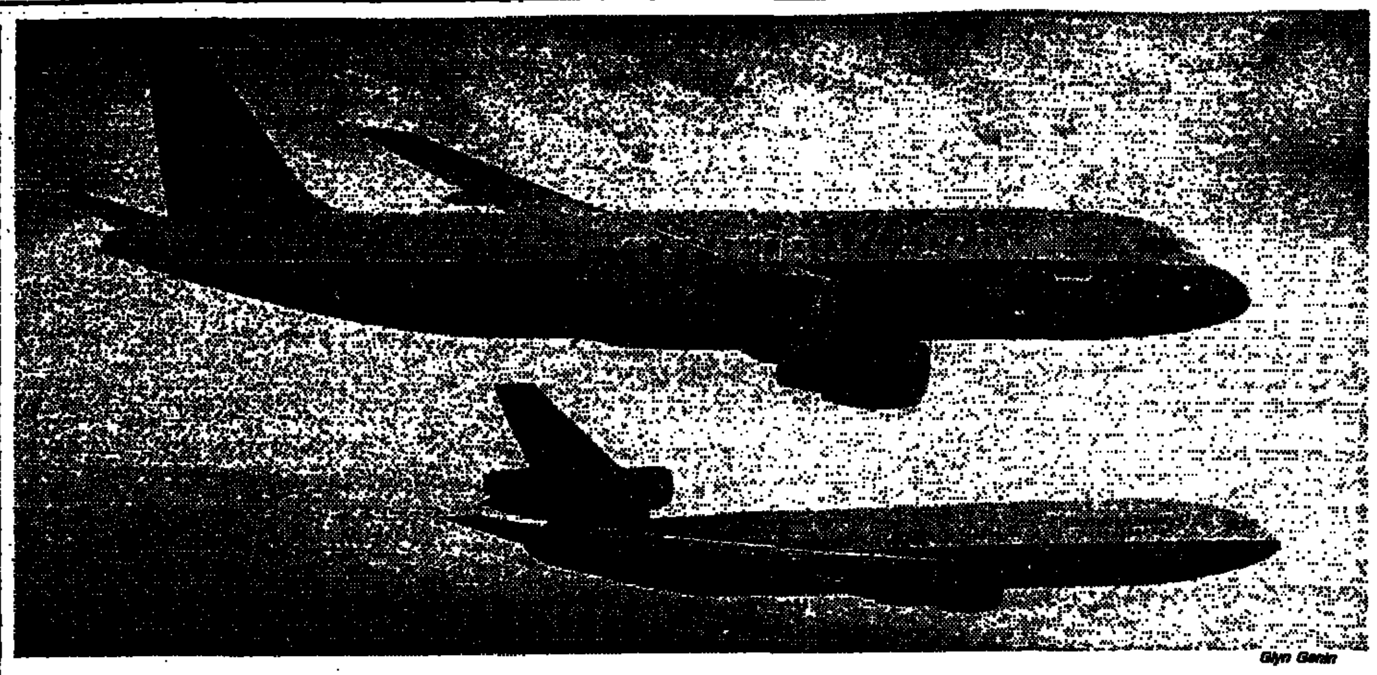
However, they argue, water raises specific difficulties. As it is a natural monopoly, its services involve an effect on the environment, and strict control is needed to prevent over-exploitation.

Those general points were exacerbated by the form privatisation will take, turning the regional water authorities into public limited companies (plcs) driven by the maximisation of profit and reorganised into various subsidiaries.

"In combination, these specific features of water and plcs mean that where operating surpluses are currently invested entirely in capital renewal or upgrading, the demands on this surplus will increase to include dividend and tax payments against a background of relatively static demand for water services; overcapacity on the supply side; and a regulated consumer price system.

"Thus plcs will be forced to increase revenue or reduce costs if they are to survive on the capital market," the report states.

The most realistic options for the privatised water companies under these circumstances would be to cut the cost of capital investment in absolute terms, to increase borrowing, to increase consumer prices within the regulatory framework, or to diversify profit-generating activities into non-core activities.



Glyn Genin

An Airbus A320 (front) and a McDonnell Douglas DC-10, originally with British Caledonian, appearing for the first time in British Airways livery. BA inherited the types when the two airlines merged

Students will step up opposition to loans proposal

By Our Education Correspondent

THE NATIONAL Union of Students agreed at the weekend to intensify its opposition to the Government's proposal for student loans, with a national demonstration planned for early next year. However, it aims not to antagonise financial institutions that have been asked to take part in the scheme.

Banks and building societies would be expected to administer the Government's proposal for top-up student loans from 1990, but they have made plain their unhappiness with key aspects of the white paper published last month.

There have been suggestions that the NUS would organise boycott or other protest action aimed at financial institutions likely to take part, but the NUS's winter conference in Blackpool at the weekend failed to discuss such proposals.

The NUS is keen not to alienate the banks while they, too, voice disagreement with the Government's plans.

Instead the conference agreed an intensified lobbying campaign against the loan proposal. Students might be asked to try to persuade their parents to write, opposing the scheme, to their local MP.

The conference also agreed to organise a national petition and demonstration against the scheme, to be held early in 1989, probably in February.

Report recommends less science teaching for some pupils

By David Thomas, Education Correspondent

A ROW has broken out over an official report which has bowed to government pressure to limit the time some secondary school pupils spend on science in the new national curriculum.

The National Curriculum Council, the body tasked with overseeing the national curriculum, is due to publish its final reports on science and maths today.

The reports were prepared after widespread consultation on interim studies of the science and maths curricula which were published in August together with comments by Mr Kenneth Baker, Education Secretary.

Mr Baker disagreed with the interim committee's proposal that all 14 to 15-year-olds should spend 20 per cent of their time on science, arguing instead that 12.5 per cent would be adequate for some pupils. The curriculum council appears to have accepted the Government's views on the matter.

The Education Secretary also wanted to reduce the interim reports' emphasis on testing pupils' communications skills and their knowledge of science's practical applications, emphasising instead their knowledge and understanding of scientific and mathematical principles.

However, Mr Jack Straw, Labour's education spokesman, yesterday released copies of a provisional summary by the National Curriculum Council of the responses to its consultation exercise, which showed widespread opposition to Mr Baker's views.

For example, 37 per cent of organisations that responded strongly disagreed with the proposal that some 14 to 15-year-olds should devote only 12.5 per cent of their time to science.

More than half the respondents strongly opposed the downgrading of communications skills and knowledge of science's practical applications. Business opinion is understood to be particularly concerned about the point, and the Confederation of British Industry has written a strong submission to the curriculum council.

In a letter to Mr Baker, Mr Straw accused the Government of championing these changes "as an easy, cheap, but short-term way out of the mounting and serious science and maths teacher shortages."

Telepoint study suggests reduced market potential

By Hugo Dixon

A PESSIMISTIC assessment of the potential for the new telepoint market is given in a report on the UK telephone market to be published this week.

The report, produced by MZA, a specialist market research company, predicts that there will be only 2.5m telepoint phone users by 1995, compared with forecasts of over 3m users by 1992.

Telepoint is a mobile phone service due to start next year. It will allow people to make phone calls within a few hundred metres of thousands of base stations scattered around the country at strategic points, such as petrol stations, hotels and shopping centres.

There has been speculation that telepoint could be a new money-spinner for the telecommunications industry in a similar way to cellular, or car, phones.

The Office of Telecommunications is trying to decide which applicants should be awarded licences for a service.

Telepoint will be a business rather than a consumer market, MZA argues. The market for the service would be worth £350m in 1995, with a further £60m spent on the phones.

The UK telephone attachment market to 1990. MZA, 3 Crickdale Court, Crickdale Street, Swindon SN1 3EY. £4,000.

UK NEWS

Hammond offers to quit in talks on AEU merger

By Charles Leadbeater, Labour Editor

MR Eric Hammond, general secretary of the EETPU electricians union, has offered to stand down and call a leadership election after a proposed merger with the AEU engineering union. His aim is to ease the way for an amalgamation of the two unions.

The unions' leaders will meet within the next two weeks for talks which could make or break their plans to create a merged union with 1.25m members.

Senior EETPU officials believe the meeting, convened after much delay, will determine whether the long-running talks should continue or be called off. They believe the talks hang in the balance.

Mr Hammond made his offer in an effort to resolve continuing disagreements about organising the leadership of proposed merged union. It was first proposed that Mr Bill Jordan, AEU president, should become president of the merged union, with Mr Hammond as general secretary.

Mr Gavin Laird, AEU general secretary, insisted, however, that the merged union should operate with a president and two general secretaries, to provide him with a leadership position and ensure the EETPU did not have an automatic right to the post of general secretary.

That position was recently endorsed formally by the AEU's executive council. It was widely thought to be unacceptable to the EETPU.

The EETPU is concerned that as Mr Hammond would retire before Mr Laird, and that the plan for joint general secretaries would allow the AEU eventually to take control of the two top jobs in the merged union.

Mr Hammond, in a move which appears in part designed to call Mr Laird's bluff, has told the AEU leadership that he is prepared to call a leadership ballot after the merger which would pave the way for the election of a younger EETPU general secretary. The new general secretary would then take his place alongside Mr Laird, and would become sole general secretary after Mr Laird's retirement.

The EETPU will suggest that the question of the merged union's leadership should be discussed only once the other aspects of the amalgamation had been agreed.

The two unions are divided over the appointment of full-time officials. The AEU has proposed that all new officials should be elected. The EETPU wants new officials appointed for two years before facing election.

'KGB' and 'flat earth' jibes emerge in election

By Our Labour Editor

THE leadership of MSF is sharply divided according to campaign literature distributed for a forthcoming election. MSF is the 600,000-strong general technical union formed by the merger between ASTMS, the white-collar union, and Tass, the left-led manufacturing union.

The candidates' electoral addresses for the ballot reveal strong disenchantment among some former ASTMS members with what they see as the centralisation of power in the hands of left-wing, full-time officials.

Lay officials and local branches traditionally played a strong role in decision-making in ASTMS.

MSF was formed with two joint general secretaries, Mr Clive Jenkins, general secretary of ASTMS, and Mr Ken Gill, general secretary of Tass. Mr Jenkins has since retired and Mr Gill has become the union's leader.

Right-wing union leaders argue that this will allow Tass officials to dominate the merged union.

The tensions have emerged in a by-election for a seat on the national executive committee for MSF Division One, the division comprising former ASTMS members.

Mr H. Booth, a candidate from the north-west, says in his election address that the organisation of the executive committee is "KGB stuff," with very little information on decisions provided to members.

He says: "Members do want to be involved in decision-making with national officials and district officials as in pre-merger times, not told to accept the flat earth policies of our new union colleagues."

Mr M.T. Walker from Derby says: "I am totally opposed to the current drift towards a more centralist control of the union by full-time officials."

He says the union must resist attempts by the "so-called Broad Left to dominate decision-making".

Employers 'ignore women's aims'

By Jimmy Burns, Labour Staff

MANY companies and union negotiators are still failing to take women workers seriously despite equal pay legislation and labour market pressures.

That emerges from two surveys of the implementation of equal opportunities policies. They were conducted by the trade union Labour Research Department (LRD) and the GMB general union.

The LRD survey of 21 large UK private companies published today found that all but one company had an equal opportunities policy, and that most claimed to monitor it regularly.

With the exception of career breaks, however, only a minority was found to be implementing measures to attract and retain women, particularly working mothers.

None of the companies in the survey had organised special nursery provision, and only 7 per cent made specific payments towards childcare. Only 27 per cent had job-share schemes.

National Westminster Bank was the only employer to state that it had considered the possibility of a nursery. It had decided against because of "difficulty with a national workplace in siting a crèche" and because such a facility should be available to all staff.

LRD comments: "Job-sharing emerges as the main area where private employers offer significantly worse provision than local authorities." A similar LRD survey of 93 local authority employers last February found that nearly 3,000 workers were job-sharing.

The GMB survey found that 40 per cent of collectively negotiated agreements last year included no provision for leave to look after dependents. It covered 506 workplaces employing more than 91,000 of the union's members, 32 per cent of whom are women. Only one in five agreements included paternity leave of up to five days.

The LRD survey found that more than 53 per cent of companies made provision for employees to take leave for family reasons, although that was sometimes at the discretion of local management.

GMB officials said the survey confirmed that many companies had yet to implement a more flexible system of working which might help retain female employees as the number of school leavers declined.

But LRD concluded: "Our survey is more likely to reflect the better practice of the major employers since those with worse practice are more likely not to have participated. The survey therefore does not offer much hope for women workers."

● *Labour Research December 1988. Labour Research Department, 78 Blackfriars Road, London SE1 8HF. (£1.40 plus postage); Wages and Conditions Survey, GMB, Thorne House, Ruxley Ridge, Claygate, Esher, Surrey KT10 0TL. (£10).*

APPOINTMENTS

Change at Coats Viyella

■ Mr Nicholas Kuenssberg has been appointed chairman of COATS VIYELLA menswear division, in addition to his current post as a director of Coats Viyella, and chairman of the precision engineering division. Mr John Manley becomes chief executive, branded shirts. Mr James Burnside is made chief executive, unbranded shirts. He was managing director of Welch Margetson. Mr Dexter Kirk has been appointed managing director of Peter England.

■ Dr Rodney Leach, chief executive of VSEL CONSORTIUM, has stepped down following a recent heart attack and subsequent by-pass surgery. Pending the appointment of a successor, Lord Chalfont, chairman, assumes a wider executive role. Mr Tony Peak becomes chairman, as well as managing director, of the principal subsidiary Vickers Shipbuilding and Engineering.

■ SECURITY PACIFIC BANK, London, has appointed Mr Robin McIlvenny as head of the acquisition finance unit. He was with Creditanstalt where he ran the US merchant banking group in New York, and then was head of specialised finance in the London branch. Mr Colin Ansell, vice president, has also joined the unit. He was a director of Hill Samuel Specialist Finance.

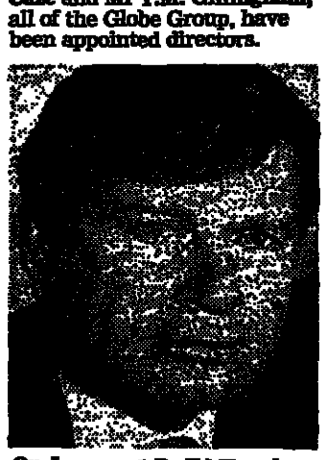
■ Mr Dennis J. Ford has been appointed general manager of THE NATIONAL COMMERCIAL BANK OF SAUDI ARABIA's London branch. He was group treasurer in the head office in Jeddah.

Mr John H.A. Quitter has been appointed a group director of SCANDINAVIAN BANK GROUP. Formerly head of all Nordic business for Citicorp and Citibank, he assumes responsibility for banking in the Scandinavian area and worldwide responsibility for banking to the forestry and shipping industries.

■ Mr Eddie Robinson has been appointed chief executive of BACS following the retirement of Mr Ray Simpson. Mr Robinson was administration director, UK banking, Midland Bank. Mr Leonard Parker, finance director and secretary, and Mr John Phimester, assistant general manager - branch information technology, Lloyds Bank, have been appointed deputy chief executives.

■ Mr John Munro has been appointed a non-executive director of LAMBERT HOWARTH GROUP. He acquired Buck & Ryan in 1987, and is principal shareholder in Easteross.

■ GLOBE INVESTMENT TRUST has acquired Geoffrey Morley and Co., which will be renamed Globe Morley. Mr D.J. Duncan, pension fund director of Globe Management, has been appointed chairman of the acquired company. Its former chairman, Mr N. Pilkington, becomes managing director. Mr J.G. West, Mr J.P. Caze and Mr T.M. Gillingham, all of the Globe Group, have been appointed directors.



On January 1 Dr Ed Hough joins JOHNSON MATTHEY as managing director, materials technology Europe. He joins from Hoechst UK industrial coatings, where he was managing director.

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UK NEWS

Britain to collaborate in European N-power system

By David Fishlock, Science Editor

BRITAIN will pledge its continuing support for developing the fast reactor, an advanced nuclear system, by signing three inter-governmental agreements to collaborate with France and West Germany at Aachen in Germany next month.

The agreements will cover research and development, design and construction, and intellectual property rights.

The three nations first agreed to pool their fast reactor research and design efforts in 1983 in a common programme to which each was contributing about £100m a year. But they have found various political reasons to avoid making a formal undertaking.

Nevertheless the three partners have mobilised the efforts of about 250 engineers in a design study for the first European fast reactor (EFR).

The five-year design study, costing about £25m a year, is funded by a consortium of West European electricity companies called the European Fast Reactor Utilities Group, which includes the Central Electricity Generating Board.

The latest hitch to the project was Britain's decision last summer to cut its state-funded research and development on fast reactors.

Its Dounreay nuclear establishment in Scotland, focus of fast reactor development, is expected to shrink from over 2,000 staff to only 400 during the next decade.

Cecil Parkinson: in favour of a fast reactor agreement

Announcing the cuts, Mr Cecil Parkinson told parliament that he hoped Britain would continue in the European collaboration. He has since restated that message to the partners and received assurances that they want Britain's continuing participation.

This year it is estimated that Britain will spend about a fifth of the total European outlay on fast reactor research and development.

Next week the Energy Department's advisory council for research and development, headed by Sir Richard Norman, the department's chief scientific adviser, will review the revised programme of the UK Atomic Energy Authority and its efforts to underpin the EFR design.

The EFR is an attempt to pool the best ideas from all three nations in a 1,420 MW nuclear station sufficiently competitive in cost to persuade the utilities to fund it.

It surmounted its first hurdle this autumn when the partners accepted a two-inch-thick report setting out what they are calling the "first consistent design" of EFR.

The intention is to optimise EFR into a "conceptual design" for a costed reactor by early 1990, which implies that a specific site will have to be agreed by the electricity companies backing it. The host nation would then undertake design leadership.

If that happens, the remaining three years of the study could be spent on detailed design for the site, with a target date of 1995-96 for a start to construction.

Britain is not considered a likely location because of the reorganisation entailed by privatisation and because of the lengthy public inquiry such a project would have to negotiate.

Inland PWR 'would cost more'

By David Green

BUILDING an inland pressurised water reactor nuclear power station at Winfrith, Dorset, might cost nearly £600m more than at the coastal sites of Sizewell B or the proposed Hinkley Point C, according to figures released by the Central Electricity Generating Board.

The extra money would be needed to pump cooling water from the coast, five miles away, through an underground tunnel.

However, the higher costs could be shared by building two reactors and that is envisaged in outline schemes that have so far been drawn up.

Sizewell B, the UK prototype of the US-designed pressurised water reactor (PWR) now being built in Suffolk, will cost £1.6bn, while the forecast price of Hinkley Point C in Somerset is £1.5bn.

Mr Sam Goddard, corporate director of the CEGB's system planning department, says in a document that has just been submitted to the Hinkley Point C public inquiry that the capital cost of a direct cooling system for the Winfrith site would be between £470m and £595m.

The figures have been released in an attempt to show the inquiry that Hinkley Point is the best site for Britain's second PWR power station.

Winfrith is one of six other potential PWR sites that have been identified, but the only other one in south-west England, where the board believes the grid system needs additional generating capacity.

Mr Goddard says all the direct cooling schemes considered for Winfrith would involve a pumping station on or near the coast, an intake tunnel 20 ft in diameter and a 15-ft-diameter outfall tunnel.

Some schemes involved an underground pumping station, excavated from caverns below ground via an access tunnel.

The proposed Winfrith PWRs would be built next to an existing UK Atomic Energy Authority research establishment.

Two Welsh investments will create 600 jobs

By Anthony Moreton, Welsh Correspondent

TWO investments in Wales to be announced this morning will create 600 jobs.

Kawneer UK, the British arm of a US producer of aluminium architectural systems, is to spend £10m on a plant at Llantrisant, near Cardiff, that will employ 300 people.

In North Wales, Remsdaq, a De La Rue subsidiary, which already employs 130 people at its Deeside plant, will also add 300 staff to its payroll through a £9m expansion.

Mr Chris Lord, managing director of Kawneer, said yesterday that the company was hemmed in on its present site in Runcorn, which employs 340 people making aluminium windows, doors and curtain walls for the building trade.

Kawneer's expansion has been helped by a government grant of about £2.75m and Remsdaq has received about £1.5m. The companies' decisions will strengthen the hand of Mr Peter Walker, Welsh Secretary, who has been arguing for a more liberal economic policy than that being pursued by Mr Nigel Lawson, Chancellor of the Exchequer.

Mr Walker can point to the influx of many companies into Wales this year as a result of government assistance. The influx, he believes, has materially assisted the improvement in the Welsh economy.

Remsdaq provides security services for airports, factories and other premises. It also provides systems for the gas, electricity, water and oil industries to monitor plant performance.

Both companies are moving to greenfield sites.

Broking group names chairman

MR Christopher Castleman, former chief executive of Hill Samuel and Blue Arrow, is to become chairman of National Investment Holdings, the grouping of regional stockbrokers.

Mr Castleman, 47, will be taking a non-executive position to advise on strategy.

Ford selects private motorists to test Fiesta before launch

By John Griffiths

FORD is delivering nearly 250 examples of an all-new Fiesta car model to selected high-mileage private and business motorists across Europe, although the car will not go on sale until well into next spring.

The car is of vital importance to Ford, which is expected to produce it in a volume of at least 450,000 units a year in the UK, Spain and West Germany.

So in a highly unusual move for a volume car maker attempting to maximise the quality of its output, Ford is abandoning much of the secrecy that traditionally surrounds new models. Instead, it is providing a million-mile test programme on public roads, being conducted mainly by non-company drivers, including police forces.

The intention, Ford said at the weekend, is to complement the feedback it normally obtains – like most car makers – by using its own test drivers to clock up pre-launch mileage on tracks far away from the public gaze.

A further 1m miles will have been completed by Ford's own testers before the launch.

The cars going to private users will be monitored weekly for quality, durability, operating economy and reliability. Information thus gathered will be analysed in an attempt to detect and correct any quality or other shortcomings before cars are sold to the public.

Mr Alex Trotman, Ford of Europe's chairman, said: "By placing these cars with high-mileage, severe-duty fleet operators at the beginning of a European winter, we can quickly accumulate data that will assure the highest possible quality levels when we begin selling the new Fiesta next spring."

Ford thus hopes to avoid the relatively common experience among car makers of finding unexpected post-launch flaws that are quickly picked up by the motoring press and buyers, in spite of apparently intensive "in-house" testing.

For example, the suspension of the Ford Escort encountered widespread criticism when the car was first launched, although it is now the world's best-selling car.

The company is refusing to release further details of the new Fiesta, its sales ambitions or even the investment being made at Dagenham in the UK, Cologne in West Germany and Valencia, in Spain. Like the current model, the new Fiesta is being built at the three Ford plants.

Total Fiesta production was 387,000 last year, of which Spain accounted for 152,000, West Germany 129,000 and the UK 106,000. While Ford has yet to disclose its precise production plans for the model, industry analysts such as DRI Europe suggest that Ford will be seeking to move output much closer to the current European "supermini" market leaders.

Fiat last year produced 682,000 of its Uno model, followed by Renault with 573,000 R5s and Peugeot with 515,000 of its 205 models.

Latest Fiesta: million-mile test before launch

MANAGEMENT

The role of head office

How the discriminating parent should behave

Christopher Lorenz on a doctrine that may be vital to corporate survival

Most sports stars succeed by focusing all their energies on the skills of one particular game, rather than by trying to play several others as well. Few tennis champions also excel at baseball or even squash.

The same is true in the business world, according to a doctrine which has rapidly been gaining ground among top British managers this year under the evangelising aegis of McKinsey & Co, the international management consultancy, and the Ashridge Strategic Management Centre.

In essence, the McKinsey-Ashridge doctrine, of "focused corporate parenting," is that a company's head office can only be really effective if it plays one particular type of parenting role towards the various businesses in its portfolio, rather than trying to be an all-rounder. If its most natural style does not fit the parenting requirements of some of those businesses, and it therefore fails to add value to them, then, according to the doctrine, it has only two choices: sell the misfits or (with much more pain) change its own style. If it funks this dilemma, then a raider will be only too happy to do the job for it, and dismember the portfolio entirely.*

The doctrine has added the crucial "new" dimension of corporate style to an international controversy which has raged for years about "relatedness" – that is, whether corporate diversification should be restricted to related types of business, or whether it can be extended safely to the conglomerate-like acquisition of unrelated businesses.

The two organisations have won influential supporters for their claim that the doctrine is vital to corporate survival in today's relentless business environment, notably from Sir John Harvey-Jones, the former chairman of ICI, the UK chemical giant.

But not every company agrees that having a single corporate style is either virtuous or even possible.

Three partial dissenters, who nevertheless recognise the doctrine's value, are Woolworth Holdings, the diversified British retailer; London International, makers of Durex contraceptives and other rubber products; and Courtaulds, the UK textile and chemicals group.

At a recent conference organised jointly by the Ashridge centre and the British Strategic Planning Society**, top executives from all three companies discussed the harsh implications of the doctrine with the principal evangelists from both McKinsey and Ashridge, in front of a large audience of managers.

The most trenchant view was that of Woolworth, expressed by its finance director, Archie Norman, an ex-McKinsey man who has played a leading part in the group's resurgence since 1982. Describing himself as "counsel for the defence of hybrid corporate styles," he stressed that "*not* having a single style has been critical to our success. We specialise in applying different styles to different businesses, depending on their stage of development."

Thus, at the group's B&Q and Comet discount chains he and his head office colleagues had applied a style which the Ashridge centre calls "strategic control" (McKinsey dubs it "coach").

This falls roughly midway between the two extremes of the doctrine's spectrum of different roles. This encompasses at one extreme, a purely "financial control" style, with no involvement in strategy (this is most appropriate for groups of businesses which have little in common with each other). At the other is a style characterised by considerable hands-on involvement in strategy, which Ashridge calls "strategic planning" and McKinsey calls "orchestration". This is deemed most appropriate for a portfolio of businesses which need close integration or co-ordination.

At Woolworth's "stand-alone" Superdrug chemist chain, on the other hand, head office had acted very differently, said Norman - merely as a controller. The Woolworth business itself had been orchestrated in a totally hands-on, semi-operational style.

This ability to play contrasting roles at the same time distinguishes Woolworth from most of its competitors, claimed Norman. "Corporate centre management is *the* scarce resource in retailing – parents are typically either too 'hands-on' or too 'hands-off'," he argued.

Despite his protestations of dissent, Norman actually subscribes to much of the McKinsey-Ashridge doctrine. Though he and his corporate colleagues have succeeded in playing multiple roles while the various businesses in the group had been put back on their feet, he admitted that the role types might well have to be concentrated in future.

After the six-year reconstruction, "I've no doubt we have to pull back to a more specialised style, with established patterns of behaviour," he said. Lack of clarity about the centre's role had created tension, and potential synergies between different businesses were not being achieved. It was also difficult to play a multiplicity of roles with more than a limited span of businesses.

The virtue of playing different roles, both in parallel and over time, was also rammed home by David Sadtler, corporate strategy director of London International. "Different parts of the group need different styles," he said. The important thing was to select the right role for the right business.

Unless companies were lucky enough to be operating in a very undemanding environment, they also had to change those styles from time to time, Sadtler pointed out. He agreed with the McKinsey-Ashridge doctrine that it is far easier to change a business portfolio than alter the corporate style.

Through various disposals and acquisitions, London International has been doing the former with ease, but the latter has proved far harder. Sadtler said it had been "wrenchingly difficult" to shift everyone in the company away from financial controllership towards more flexible financial controls and greater strategic involvement.

At Courtaulds, too, different styles had to be played in parallel, according to Eryl Morris, a main board director and chairman of the company's films and packaging interests. Changing a business portfolio was not as easy as the doctrine suggests, he said. Echoing a frequent comment of his well-known chairman, Sir Christopher Hogg, Morris argued that "unfortunately, one has to play the deck of cards one has been dealt. It would be nice if all the businesses needed the same style, but they don't."

But Morris agreed wholeheartedly with McKinsey and the Ashridge centre that successful corporate parenting requires that head office choose a management style which is appropriate to its businesses. Among British companies which benefit from consistency between their type of business and their management style, he cited Tarmac, the construction company, and BTR and Hanson, two conglomerates which specialise both by type of business and by management style. All three companies are what Ashridge and McKinsey call "controllers".

By contrast, he claimed that Ferranti and GEC, two other controllers, showed less consistency – and also a much lower rate of earnings growth.

GEC came in for more forthright condemnation from the senior McKinsey consultant at the conference, Sigurd Reinton. Asked whether GEC had the wrong corporate style for its various types of business, he replied "absolutely – GEC is a dinosaur. They'll get broken up." (McKinsey's criticism of the structure and style of GEC, and of many other companies in the UK electronics industry, were expressed more fully in a report to the National Economic Development Office in July.)

Analysing why mismatches between corporate styles and business needs are so common, one of the Ashridge centre's founders, Andrew Campbell, emphasised the complexity of the considerations involved.

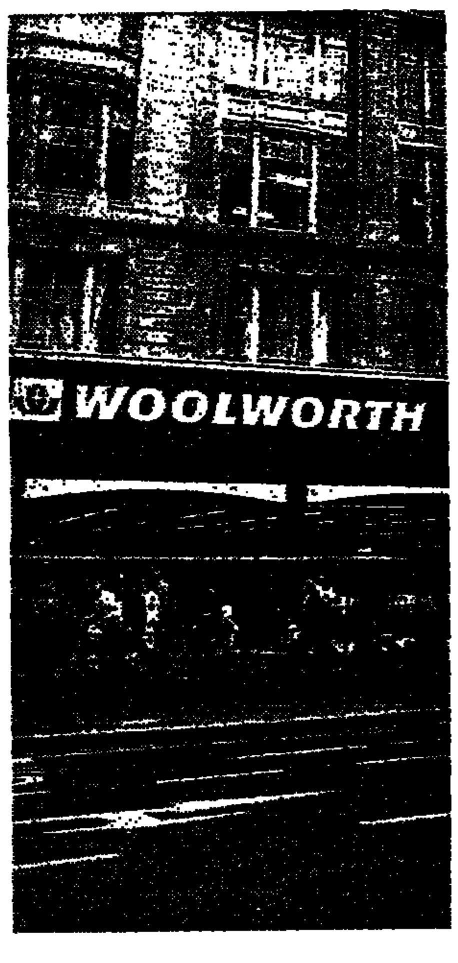
The corporate centre's role must not only be aligned with the degree of potential synergy between its various business units, he said, but also with the types of marketplace battles in which they were engaged, as well as with the degree and type of risk entailed in their financial decisions (average size of investment, length of payback period, degree of uncertainty, and so forth).

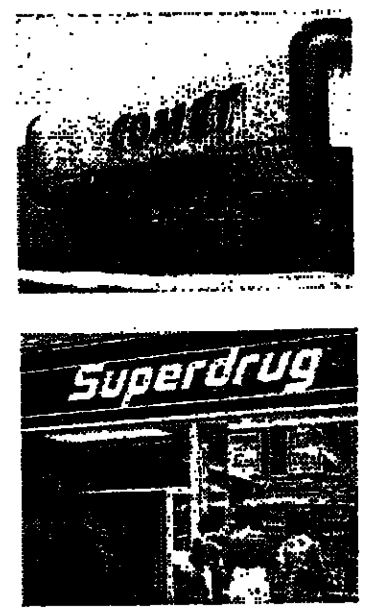
Companies had no choice but to take action to rectify mismatches between their portfolios and corporate styles, said Campbell: "You have to do something about them because you're destroying wealth in a big way."

Corporate restructuring and portfolio change were the shortest-term solutions, concluded Campbell, since the creation of a new predominant parenting role generally took five years or more, as Woolworth and London International had found. The only alternative was to sell to a break-up specialist.

**The McKinsey-Ashridge doctrine was described at greater length on the Management Page on June 17 ("Why parents must be more particular")*

*** A limited supply of conference papers is available from The Strategic Planning Society, 15 Belgrave Square, London SW1 XPU. Tel 01-235 0246. Fax 01-235 1298.*





Not simply just a pair of hands

Michael Skapinker on individual initiative

Have you ever wondered, Charles Handy asked a conference in London last week, why television programmes always end with a long list of credits?

"You don't want to know who the assistant wardrobe manager is," Handy said. "But he or she wants to tell you."

Television companies understand the importance of acknowledging each individual's contribution to a programme, he told the conference, which was organised by the Association for Management Education and Development. So do newspapers and magazines. Articles in almost all publications carry a journalist's byline.

Handy, the author of a major 1987 report on the state of British management development, predicted that bylines will become a common feature of many organisations – and not just of news and television companies. Already, some manufacturers attach a note to their products giving the name of the worker who made it.

Bylines are just one aspect of what some companies have long understood: that employees cannot be regarded simply as a pair of hands, Handy said.

If organisations are to prosper, individuals need to use their own initiative to ensure that quality standards are maintained and customers are properly looked after. It is no longer enough for employees simply to follow procedures laid down in a manual.

To encourage employees to use their own initiative, organisations need to measure output rather than input, Handy said. Companies "used to measure whether people filled in the right forms. Now what they say to a unit or individual is 'this is what we expect you to have done by the end of the month. How you do it is up to you.'"

Job definitions should also be less specific than they were in the past, Handy said. He called this the "inverted doughnut theory of management". The doughnut in question is one of those with a hole in the middle, rather than a dollop of jam. Except that in this case the hole represents the basic components of employees' jobs, while the circle stands for all the things that they can do on their own initiative.

"It should be all right to ask 'why?' and to come up with impertinent suggestions," Handy said. Organisations also need to accept that employees will make mistakes. And as other writers have already suggested, shifting teams and task forces will replace fixed management hierarchies.

Will British companies be able to adapt to these requirements? Handy argued that the new management style could suit the British well. Look at the areas in which Britain shines, he said: financial services, insurance advertising, design, consultancy, journalism, television, publishing, medicine and law.

Many of these rely on highly-trained professionals who use their own initiative and reject attempts to force them to conform to the constraints of a management hierarchy.

Unprepared

Where Britain is unprepared for the future is in providing the education that modern organisations require, he said. By the year 2000, 70 to 80 per cent of workers in Europe would require brain rather than muscle skills. Half of those, he said, would need skills of university degree level.

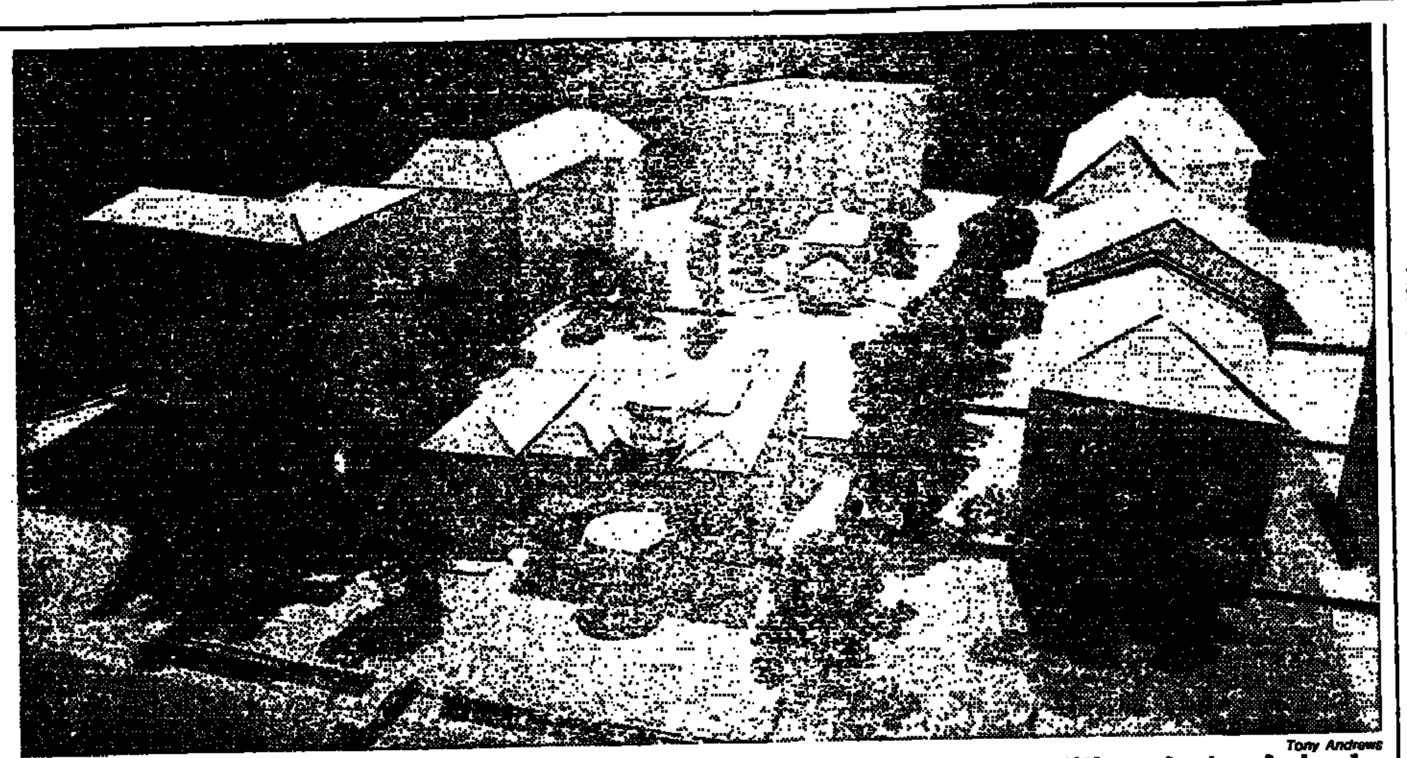
In other words, he said, if British companies are to have the skilled employees that they require, 40 per cent of the work force would have to have gone to university. Because some would take time off to raise a family, the goal should really be 50 per cent.

Yet the proportion of British employees who have been to university is so low that "not only will we have skill shortages; we won't even have created the jobs for which there would have been skill shortages."

He said that companies could not afford to wait for governments to invest in education. "If they're not going to invest in the future of this country then we must," he said. Among the ideas he suggested was that organisations give each employee his or her personal development budget.

ARCHITECTURE

Embassy fronts classical intrigue



Tony Andrews

The model of the new "villa" for the British Ambassador to Moscow – a competition winning design by Julian Bicknell that has upset the architectural world.

Strong architectural currents were blowing round the corridors of Whitehall last week. In the spatially gaunt but decoratively grand Durbar Court of the Foreign Office (by Matthew Digby Wyatt, 1897) the winner of the architectural competition for a new residence for the British Ambassador in Moscow was announced. The architect was selected from a short list of eight. His name is Julian Bicknell and he has produced a design that has left the architectural world distressed and bemused and the Government and the Foreign Office delighted.

The exciting thing about any major architectural event today in Britain is that it is bound to be politically highly charged. This competition had all the ingredients to be almost as intriguing as the original battle of the styles that raged over the design of the classical Foreign Office itself. The Prime Minister slipped in privately to view the results and, by all accounts, had some pretty harsh things to say about some of the entries.

The judges for the competition worked under the chairmanship of a member of the royal family HRH The Duke of Gloucester, who was trained and briefly practised as an architect. His co-assessors were the architects John Partridge and Andrew Sebire; the Deputy Under Secretary of State at the Foreign and Commonwealth Office, Sir Mark Russell; and a former Ambassador to Moscow Sir Bryan Cartledge. These gentlemen say in their report that the final selection was very close. The winning scheme is in the neo-classical style and at first sight appears to be not a new residence but one of those early 19th-century villas which abound in the Moscow suburbs. Or are we in Potsdam just after the retreat from Moscow ?

It is the fact that Mr Bicknell (who recently completed a fine country house in Cheshire which is almost a replica of Palladio's Villa Rotonda) has designed a classical house that has so upset the wilting architectural establishment. I must confess that I was initially puzzled but what certainly has to be seen as a conservative choice must also be seen, if possible, beyond the superficialities of style. There is a grave danger at the moment of the polarisation of architectural opinion to such an extent that reasoned criticism becomes impossible.

Meeting the brief is as important as any stylistic consideration. It would be natural too for any diplomat looking at any future setting for his life and work to try and sense the kind of atmosphere that he considers appropriate. It is easy to imagine the British Ambassador receiving guests in Mr Bicknell's domed hall and showing them into the Soanian concert room. They are plain but elegant spaces that will be filled with pictures and furniture by young British craftsmen and designers. What was disturbing was the fact that in his drawings Mr Bicknell shows all the visitors to the Residence in early 19th-century pre-Revolutionary dress. Perhaps British Ambassadors have a penchant for costume parties?

In any competition the winner has to be judged alongside the other entries. They were indeed in this case a mixed bag. I enjoyed the entry by Edward Cullinan Architects which was vigorous, witty, completely informal and probably much too democratic for both Moscow and the Foreign Office. He has a great timber baronial hall at the heart of a very loose plan and his usual eclectic mixture of landscape gardening and well integrated and crafted architecture. He was placed third in the competition.

A younger firm, Allies and Morrison, came second with a good plan but an unrelieved plainess in their elevations. An insight into the mind of the jury can be gained from their view that this "was the best of the contemporary schemes."

Nicholas Hare from Cambridge has produced in my view a very workable and intelligent plan – the exterior has a somewhat hermetic appearance. David Chipperfield, another of the young hopefuls produced a design that is in its way just as historicist as that of the winner: his source material is the early days of the modern movement. But his plan had some serious infelicities with a circulation that often seemed to leave the guests about to go into the servery.

Maguire and Murray have consistently produced careful and beautifully made buildings that continue, as far as is possible today, the spirit of the Arts and Crafts movement. Their entry for the Moscow house was a great English Voyseyesque house – again dependent on tradition. The two other entries Barry Gasson (of Burrell Collection fame) and Cambridge Design lacked any particular distinction.

The designs for Moscow will be on view at the Royal Institute of British Architects until December 14. It was clearly a well run competition for an official building and the result is controversial and significant. There is also to be a new Embassy office building in Moscow, but there has been no competition for it. Instead it has been awarded to the architects Ahrends Burton and Koralek who produced the now infamous "carbuncle" design for the National Gallery in London.

The Architects' Journal describes their appointment as a Trojan Horse in Moscow. What can they mean? I suspect that we shall see another historicist design inspired by the early modern and constructivist work of Revolutionary Moscow. Thus the Foreign Office has achieved a typical diplomatic and architectural coup. Their British representatives can be utterly 20th-century at work and return to dignified classicism for rest and recreation. Which is, after all, how most modern architects chose to live in their Georgian houses . . .

★

It is worth considering the results of another official competition that can be seen at the 9H Gallery, Cramer Street, London, W1. In a comprehensive display of the work of the firm Evans and Shalev, the photographs of the Truro Law Courts show that this firm has produced a clever, articulate and contextual modern building, although in a softer vein than some of their more rigorous work.

Inspired by the work of Le Corbusier and Aldo van Eyck this practice has a lot to offer in the modern tradition. Some of their work looks worryingly tough, such as their concrete block dominated Home for the Younger Handicapped. But Truro, which I have yet to see in the flesh, has a highly designed strength that looks promising.

We live in plural times where it certainly helps to be a catholic and rejoice in the universal architectural richness while still searching with a steely eye for crystalline gems that show their architectural qualities regardless of style.

Colin Amery

SPONSORSHIP

A pat on the back for award winners

An air of complacent achievement was almost visible, and rightly so, at the annual award ceremony for successful arts sponsorships, orchestrated by the Association for Business Sponsorship of the Arts and paid for by the Daily Telegraph, at the National Theatre last Tuesday.

Rarely have so many famous faces from the disparate worlds of business and the arts mingled together in such self righteousness. Youth and beauty was well represented by the Duchess of York; age and achievement by Lord Goodman who handed over the chairmanship of ABSA to Sir Simon Hornby.

ABSA enters its second decade with many friends and few enemies. It has managed to help raise corporate spending on the arts from under £1m to around £30m a year. It is basically a propaganda machine, only occasionally allowing itself to be lured into arranging marriages between industry and the arts: it fixed up Digital with the dance world and English Estates with a whole range of regional arts companies, and watched as the latter waltzed off with a Best Corporate Sponsor award at the ceremony, for assisting the RSC on its Newcastle visits and the Theatre Royal in Plymouth.

Perhaps there was a feeling that the prize winners were too predictable; perhaps the panel of judges should be changed annually, to allow in more radical views. Certainly there will be more women on the panel in future. Everyone appreciates the bravura of Royal Insurance in pumping more than £1m into the RSC over three years, and Lloyds Bank going for broke with its £500,000 investment in the Royal Academy's *Age of Chivalry* exhibition, but there was a feeling of money talking in their awards.

More noteworthy was Becks Bier's award for Best Youth Sponsorship, both because it was brave to acknowledge a drink company in this field, and because Becks has supported the avant garde, from Dance Umbrella to the Théâtre de Complicité. In the same way it was easy, but commendable, to give a local Asian restaurant chain, Jamdani, a prize for supporting an exhibition of Bangladeshi textiles at the local Whitechapel Gallery in East London. Of more long term good might be the award to Balfour Beatty Devlopments and London & Edinburgh Trust, property developers, who, in their eagerness to rebuild Cardiff, financed 70 local artists to show and sell their work in the city during August.

Commendable prize winners were NAPP Laboratories, who supplied enough extra money to enable the Council for Music in Hospitals to extend its coverage to hospices, and The Place Theatre in London which picked up the only award going to an arts organisation for its imaginative scheme for getting companies to invest in new dance works as if they were investing in the Stock Market.

The restriction of choosing just one winner for each category was wisely discarded, enabling Gordon Richards Tools of Coventry, a tiny engineering company that celebrated 20 years in business by backing a CBSO concert in Birmingham, and Volkswagen, for its aid in launching the Tate in the North at Liverpool, to be acknowledged along with Jamdani as good first time sponsors. Room was also found for one new category – Best Sponsorship of British Arts Overseas, which went, naturally, to Barclay's Bank, which has poured millions into the foreign tours of the Royal Ballet. This is a growth area.

Lord Rayne was this year's first recipient of the new Lord Goodman award for personal contributions (after Lord Goodman himself of course).

But for all the feeling of congratulation at the ABSA awards the fact remains that only around a hundred of the 500 largest companies in the UK support the arts, and some of the backers do so unsatisfactorily, with ill conceived promotions. There is also the debilitating danger of companies coming in on a "one off" basis, raising the expectations of an arts group only to let it down flat. Rank Organisation has been accused on this score and in the US the sudden withdrawal of Exxon from aiding the arts has caused considerable unease.

Smaller companies, to whom an arts sponsorship is something of a lark, are often happiest with the results. Of 200 first time sponsors, 90 per cent reckoned that their brush with the arts had been a success and 80 per cent of these were planning to sponsor again. Fortunately the Minister for the Arts, Mr Richard Luce, managed to raise the BSIS budget by 70 per cent this year, to £3m, in the knowledge that the more money he could suck in to finance the arts from the private sector the less dependent the arts would be on Government cash through the Arts Council.

Now ABSA is building up another range of contacts between business and the arts in addition to money – professional skills. The newly formed Business and the Arts aims to encourage companies to lend their specialists – in marketing, accountancy, computers – to arts organisations, on a part time basis. Already eight companies have contributed £100,000 to get the scheme off the ground and Tim Stockil has been appointed as director.

★

Beck's Bier is one of the more imaginative arts sponsors, as its ABSA award suggests. It is currently negotiating with the Royal Academy to stage a homage to Malcolm Maclaren, trend setter of the 1970s and best known as the manager of the Sex Pistols, in the Diploma Galleries next year.

But Beck's big victory has been winning round John McGrath, founder of left wing drama group 7:84, to the virtues of sponsorship. A few months ago McGrath argued against companies funding the arts at an Oxford Union debate. Over dinner there he made contact with Beck's, (distributed in the UK by Scottish & Newcastle), and a relationship started which has led to McGrath's new company receiving £75,000 over three years for an annual touring production for Scotland.

★

Details of the biggest prize in British arts sponsorship, reported to be £100,000, will be announced next week in London. It will be given by the Prudential. And on Wednesday another important initiative, involving Croydon and the London Mozart Players, will become public. It is a good example of how local authorities are increasingly alive to the contribution the arts can make to enriching the community.

Antony Thorncroft

Single Spies

LYTTELTON THEATRE

They do not hang about at the Royal National Theatre. The minute the regal epithet is acquired, they write Her Majesty into the repertoire and hand her over to Prunella Scales.

One will have many memories of any theatrical year, but the sight of Miss Scales, dumpy and determined in a sensible blue suit, engaging Alan Bennett as her Surveyor of Pictures in conversation about the iconology of Titian and fake Vermeers, will be one of the more glowing of 1988.

This is taking patriotism deliciously far, and a good deal further than did the other two queens on view, Guy Burgess and Anthony Blunt. Although the two traitors were possibly lovers before Burgess's defection in 1951, Alan Bennett has kept them apart in a double-bill comprising a stage adaptation of his own television film, *An Englishman Abroad*, and the new piece, *A Question of Attribution* . Each plays for just under and just over an hour.

Bennett is less concerned with the climate of treason than with a sort of pathological English unease to which treachery was a convenient mask . "When sorrows come, they come not single spies, but in battalions" moans Claudius as Ophelia goes mad. His Burgess and Blunt are remote, lonely figures, obsessed with the personal lives of others, just as the Audenesque Philby character in Bennett's *The Old Country* had a vicarious existence through distance and nostalgia.

The first play is a rather flattened out, unimaginative stage treatment, returning the story to the anecdotal form in which Bennett came across it.

His informer was the actress Coral Browne, who played herself in the film, now ceding to Miss Scales. On tour in Moscow in 1958, she is summoned to Burgess's chaotic apartment to listen to a Jack Buchanan record, provide gossip of literati she has never met, and take expanding measurements back to a London tailor.

Whereas Alan Bates conveyed a wonderful sense of other-worldliness shot through with a residual hankering after clubs and cricket, Simon Callow, directed by Bennett, presents a rather bumptious ex-pat, whose key criticism of his fellow countrymen is their lack of appetite.

Appetite is Callow's forte, and he rips into his one-sided conversation with as much gusto as he brings to the singing of Gilbert and Sullivan with his allotted balalaika-strumming boyfriend (Paul Brightwell).

In the new, more interesting, play, Blunt is being questioned by a security officer, Chubb (Callow, doubling as director), shortly before his anonymity is blown in 1979.

The officer is taking a crash course in art history, and the attempt to get Blunt to identify naked guardsmen, fellow travellers and casual friends in a series of projected blown-up photographs, is subsumed in a discussion of two Titian paintings.

Alastair Muir

Alan Bennett as Anthony Blunt

Blunt follows the brilliant 1955 de-coding by Erwin Panovsky of the "Allegory of Prudence" (the picture of three animal and three human heads) that hangs in the National Gallery while trying to unravel the identity of the third, fourth and fifth men in a fake Titian in the Queen's private collection.

The fake and the genuine article are equally interesting to Blunt, and to Bennett. His unscheduled encounter in Buckingham Palace (a swimming pool to be opened has sprung a leak, so the Queen is kicking her heels), contains the most delightfully subtle writing, and playing, of the evening, moving easily between knockabout fun, the clipped banalities of an improvised audience, and a breezy, penetrating frankness.

Blunt raises Poussin and has "Chicken" thrown back at him. "One's just had it for lunch. I suppose it's fresh in the mind." But the shuffling awkwardness on both sides leads to the perceptive understanding one imagines to be not uncommon in such formal relationships.

In a famous passage in E M Forster's *Two Cheers for Democracy*, the choice is proposed of betraying one's country or one's friend. Burgess says he loves England, but not his country. The distinction is crucial. But neither Burgess or Blunt seem very capable of friendship. It is in his study of two types of glacial ambiguity that Bennett has written so very compellingly.

Whether or not this is a fake or genuine National Theatre production is difficult to say. Handsomely designed by Bruno Santini, it is expected to transfer quickly to the West End next Spring. Let's hope it goes to the Queen's Theatre.

Michael Coveney

Boston Symphony Orchestra

FESTIVAL HALL

Infrequent visitors here, the famous Boston band with their conductor Seiji Ozawa drew a full house for their Webern and Mahler on Thursday. It was a pleasure to encounter their mellow, soft-edged sound again – when the audience permitted: for this is 'fluey-cold season, and Webern's fragile Five Pieces op. 10 were set in unequal contest from the start with an army of crepitating guest soloists. Through the hacking one could just about discern Ozawa's lovingly prepared performances – the fourth and fifth pieces paced and floated with tremulous subtlety, until just before the end of the latter some British phlegm had to be rudely shifted.

Ozawa's little Webern team seemed concerned above all to sustain an appealing, lyrical manner in opus 10; European fans are used to more pointed Expressionist inflections, but that's undoubtedly a matter of local taste. In the Ninth Symphony of Mahler, his vastly greater forces preserved a similarly temperate diction – vivid bursts of orchestral colour, yes, but hardly ever a stabbing accent in the melodic line nor any sudden poignant drop: better to forgo such touches, of course, than to force them unnaturally.

Granted some refined solo playing (with a remarkable contrabassoonist in the *Ländler* movement), the expressive heights and depths were kept by and large to a decent, reasonable scale.

It spoke highly for Ozawa's expository skill and care that this performance was generally satisfying none the less, if never revelatory. The Boston ensemble was sometimes looser than one expected, and the "funeral march" lead-back to the first-movement recapitulation missed its chill, inexorable thrust. Ozawa's up-tempo and rather hearty treatment of the final Adagio made his tenderly drawn-out epilogue seem disproportionate, though lovely on its own.

Nine double-basses may be fine for the Ninth in Symphony Hall, but in our drier Festival Hall they sounded underweight. The trombone trio, an exception to the soft-edge rule, struck repeatedly like a mailed fist: exciting at many points, but prone to overwhelm more important voices in the Rondo-Burleske and even in the Adagio. Luckily, Boston boasts an E-flat clarinet who understands all Mahler's requirements: sardonic, astringent and even (where necessary) rancid, he supplied piercing reminders of the anger and desolation that underlie this wonderful score.

David Murray

December 1-8

MUSIC

London

Philharmonia Orchestra, conducted by Christoph Eschenbach, with Thomas Zehetmair (violin). Berlioz, Schumann, and Brahms. Royal Festival Hall (Tues) (928 8800).

BBC Symphony Orchestra, conducted by David Atherton, with the BBC Symphony Chorus. Berlioz and Messiaen. Westminster Cathedral. (Thurs) (928 8800).

Royal Philharmonic Orchestra conducted by Antal Dorati. Schubert, Mendelssohn. Barbican (Mon) (638 8891).

London Symphony Orchestra conducted by Mstislav Rostropovich. Shostakovich. Barbican (Thurs) (638 8891).

Paris

Orchestre National de France and Radio France choir conducted by Sir Neville Marriner: Mozart's Cosi Fan Tutte (Mon) Théâtre des Champs Elysées (47203637).

Ensemble Orchestral de Paris' soloists: Beethoven, Mozart, J. Strauss (Tue) Salle Gaveau. (45632030).

Orchestre National de l'Ile de France conducted by Gaetano Delogu, with Ivo Pogorelich, piano. Rossini, Tchaikovsky, Dvorak (Tue) Salle Pleyel (45638873).

Orchestre Colonne conducted by Philippe Entremont, with Jorge Bolet, piano: Mozart, Lutoslawski, Rachmaninov (Tue). Théâtre des Champs Elysées (47203637).

Orchestre de Paris with Daniel Barenboim as conductor and soloist, Cecilia Bartoli, mezzo-soprano. Rossini, Mozart, Strauss (Wed, Thur) Salle Pleyel

Vienna

Philharmonisches Orchester Flandern, conductor Gunter Neuhold. Doris Adam (piano). Breweays, Schumann, Brahms. Musikverein (Tues).

Wiener Symphoniker, conductor Sandor Vegh. Erich Hobarth (violin). Haydn, Mozart. Konzerthaus (Wed).

Chamber Orchestra of Europe, conductor and soloist (oboe), Douglas Boyd. Mozart, Bach, Dvorak. Konzerthaus (Thurs).

Sinfonia Varsovia with Staatsoperchor conducted by Sir Yehudi Menuhin, with Raili Viljakainen, (soprano), Christa Ludwig, (alto), Hans-Peter Blochwitz (tenor), Boris Martinovic (bass). Handel, Mozart. Konzerthaus (Thurs).

Berlin

Boston Symphony Orchestra conducted by Seiji Ozawa. Mahler. Berlin Philharmonie (Wed).

Munich

Bamberg's Symphonic conducted by Claus Peter Flor with pianist Martha Argerich. Mendelssohn, Bartholdy, Chopin and Schumann. Philharmonie im Gasteig (Mon)

James Galway (flute) and pianist Philip Moll. Reinecke, Martinu, Gaubert, Fauré, Saint-Saens, Debussy, Godard and Ravel. Herkulessaal der Residenz. (Tues).

Amsterdam

Royal Concertgebouw Orchestra conducted by Neeme Jarvi with Boris Berman (piano). Nordheim, Prokofiev, Nielsen. Concertgebouw (Thur) (718 345).

Netherlands Philharmonic conducted by Bryden Thomson with Nobuko Imai (viola). Vaughan Williams, Walton, Elgar. Beurs (Thur) (27 04 66).

Rome

Rudolf Barshai conducting Tchaikovsky and Prokofiev. Auditorium in Via della Conciliazone (Mon, Tues) 6541044.

Trio le Cercle in a theatrical fantasy entitled Jules Verne, directed by Michael Lonsdale, with text and music by Giorgio Battistelli. Teatro Olimpico (Wed) (393304).

New York

Rudolf Serkin piano recital. Schubert. Carnegie Hall (Tue) (247 7800).

Alexander String Quartet. Haydn, Ho Joon Park, McKinley, Brahms. Kaufmann Hall, 1395 Lexington Av (Tue) (427 6000).

New York Philharmonic conducted by Zubin Mehta, with Krystian Zimerman (piano). Mendelssohn, Lutowslawski. Avery Fisher Hall, Lincoln Center (Tue) (799 9595).

New York Woodwind Quintet. Gilbert Kalish (piano). Nielsen, Peter Winkler, Alvin Etler, Dvorak. Merkin Concert Hall (Tue) (362 6719).

Andrew Rangell pianor recital. Beethoven. Kaufmann Hall, 1395 Lexington Av (Wed) (427 6000).

Chung Trio. Shostakovich, Mendelsssohn. Carnegie Hall (Thur) (247 7800).

New York Philharmonic conducted by Zubin Mehta, with Leon Fleisher (piano). Carter, Britten, Ravel. Avery Fisher Hall, Lincoln Center (Tue) (799 9595).

Musicians' Accord. Christine Schadeberg (soprano), with Barbara Kolb, Lucas Foss, Joan Tower, Laura Kaminsky. Merkin Hall (Thur) (362 8719).

Washington

National Symphony Orchestra conducted by Gerd Albrecht. Stravinsky, Schumann. Kennedy Center Concert Hall (Tue) (254 3776).

National Symphony Orchestra conducted by Rafael Frubeck de Burgos, with William Steck (violin). Beethoven, Korngold, Ravel. Kennedy Center Concert Hall (Thur) (254 3776).

Chicago

Chicago Symphony Orchestra conducted by Gunther Herbig, with Shura Cherkassky (piano). Haydn, Tchaikovsky, Brahms. Orchestra Hall (Thur) (435 8122).

Tokyo

Oslo Philharmonic Orchestra conducted by Mariss Jansons. Dvorak, Sibelius. Suntory Hall (Mon) (403 8011).

Stuttgarter Philharmoniker and Philharmonia Chorus conducted by Wolf-Dieter Hauschild. Beethoven. Showa Women's University Hitomi Memorial Hall, near Sangenjaya (Mon), Suntory Hall (Tues) (780 5400).

Das Rundfunk Sinfonieorchester conducted by Heinz Rogner. Beethoven. Shinjuku Bunka Centre (Mon) (374 6166).

NHK Symphony Orchestra conducted by Marek Janowski. Webern, Mozart, Schmitt, Ravel. (Thurs) NHK Hall (465 1780).

Wiener Oktett. Brahms, Beethoven. Suntory Hall (Thurs) (289 9999).

Hungarians get LIFT

As an appendix to my report recently on the Katona József Theatre of Budapest, I should add that the visit by the company to London next July will be sponsored not only by the Hungarian Government, but also by local businessmen.

Mr Lajos Gödölloi, the Director of Theatre at the Ministry of Culture, confirmed that the travel costs of £25,000 will be two thirds paid by the Government. The rest will come from sponsorship raised by the London International Festival of Theatre, LIFT, working in conjunction with the Katona József.

The venture gives a significant insight into both the precarious nature of bringing the best of world theatre to Britain, and the changing attitude towards funding the arts in a country where the theatres (62 in all, 21 in Budapest) have been nationalised since 1949. Arts sponsorship seems to be as inevitable in the Eastern Bloc as it is on the South Bank.

Mr Gödölloi manages a budget of 743m forints (about £7.4m) allocated to theatre from a total arts, including fine arts, budget of 1,200m forints (£12m). The Katona József, widely held to be one of the leading companies of Europe, receives a fair proportion of the 150m forints (£1.5m) shared among the four main Budapest theatres.

It is nowhere near enough, as Mr Gödölloi readily admits, but he values the international contacts made by Katona József and was clearly impressed by the great success they scored last year in Paris. He believes that this success will feed back into the rest of Hungarian theatre.

Mr Gödölloi proudly points out that glasnost started in Hungary in 1980, well before Mr Gorbachev got going. Before that date, no plays that might be said to have contradicted political or international interests were allowed. Censorship, he says, does not exist anymore. Today, no new play has to be submitted for approval.

LIFT itself runs its three-week biennial festival on a budget of £0.5m, £150,000 of which must be raised from sponsors. To part of this end, a fund-raising Hungarian dinner, catered by a leading Budapest kitchen, is planned to celebrate the arrival of the Katona József at the Old Vic in July.

The overall price to LIFT of bringing the company, 60 acting and technical personnel, to London will be about £50,000 pounds for accommodation, fees and expenses. The reward for audiences will be two marvellous, deeply indigenous and revelatory productions of Gogol's *The Government Inspector* and Chekhov's *Three Sisters*.

Michael Coveney

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Monday December 5 1988

Friction at the Euro summit

THE European Community summit in Rhodes did not turn out to be quite the frictionless event that it was forecast to be. Though the Greek presidency and Mr Jacques Delors, the European Commission President, had done their best to ensure a low-key meeting, they had forgotten about the Irish problem.

The British media may have given too much prominence to the row between Mrs Thatcher and her Belgian and Irish colleagues, Mr Martens and Mr Haughey, over their failure to extradite the former Irish priest, Mr Patrick Ryan, for alleged involvement with the IRA. But the issue certainly overshadowed the start of the meeting and has led to a serious rift between three Community members which may take a long time to heal.

Mrs Thatcher's anger and frustration at the shortcomings of extradition treaties and anti-terrorist co-operation are perfectly understandable. The people she is trying to bring to justice are, after all, suspected of being involved in the killing of British soldiers and civilians. But, as on several occasions in the past, it is the tone in which her views are expressed to her European colleagues which causes the most offence. To berate Mr Martens, the Belgian Prime Minister, a lawyer himself, for not respecting the law of his own country, and the Irish Government for making ringing declarations against terrorism instead of taking action, risks being counter-productive.

Dail approval

It will be all the more difficult now for Mr Haughey to win the Dail's approval for the renewal of the Irish Extradition Act, even if his own resolve has not been dented by the onslaught to which he has been subjected. Mr Haughey was right when he said that no extradition agreement was likely to work if every individual case was politicised.

It is at least encouraging that, behind the fireworks, co-operation in combating terrorism, of which there have already been conspicuous examples between Britain, France, the Netherlands and West Germany, is continuing on a calmer plane. The latest instance of closer co-operation in this field is the decision taken at Rhodes that each Government would appoint a senior civil servant to co-ordinate the EC's fight against terrorism, drug trafficking, weapons smuggling and illegal immigration.

Though other more dramatic events in Rhodes have tended to catch the public eye, by far the most significant outcome of the meeting was the joint statement on the relationship between the Community's planned single market and the outside world. It was a timely gesture that, on the eve of the Gatt review meeting in Montreal, the 12 EC countries should declare that "the internal market will be a decisive factor contributing to greater liberalisation in international trade on the basis of the Gatt principles of reciprocal and mutually advantageous arrangements."

Overall message

While open to various interpretations – the inevitable result of a compromise between convinced free trading states such as Britain, West Germany and the Netherlands, and the traditionally more protectionist countries such as France, Spain and Greece – its overall message is undoubtedly one favouring trade liberalisation. Those in the US, Japan and the Third World who have expressed fears about a "fortress Europe" will find it a welcome point of reference in international trade negotiations and any trade disputes which may arise.

Given the general desire to avoid conflicts in Rhodes – at least on non-Irish matters – it was hardly surprising that some of the most controversial issues were discussed only superficially. It would be an illusion, however, to believe that the Community is in for a long period of peace and harmony. Tax harmonisation, social affairs and border checks are all problems on which Britain could again find itself at odds with many of its partners and will require much skill on the part of the as yet untried Spanish presidency.

Military revolt in Argentina

DEMANDS expressed by the force of arms cannot be allowed to succeed in a democratic society. This is the fundamental reason why governments must stand firm against the blackmailing demands of terrorists.

The military rebellion in Argentina is a form of terrorism on a grand scale. Instead of taking hostages or hijacking an airliner, rebel army officers, by taking over a Buenos Aires barracks, are in effect holding the entire nation to ransom with unacceptable demands.

The rebels may consider themselves patriots; yet they deserve as little sympathy as terrorists and must not be allowed to get their way. An example must be given of firm leadership by President Raul Alfonsin and the military high command, both to protect the stability of Argentina and as a lesson to all other Latin nations where the military nurse the belief that they possess a self-appointed right to dictate the rules.

This is the third time in 18 months that basically the same small group within the army has rebelled. What they want from the Government is fundamentally the same. Having twice failed, in Easter 1987 and in January this year, there is even less justification for concessions on this occasion.

Amnesty for officers

The rebels have stated they have no intention of seizing power. Their demands, they say, are purely military: an amnesty for those officers punished for human rights abuses during the "dirty war" under the previous military junta, improved pay and the removal of General Jose Dante Caridi, the army chief of staff.

These are impossible requests with powerful political overtones. Leniency towards those imprisoned for human rights abuses would make a mockery of scrupulous attempts by the Argentine judiciary to observe due process of law under a newly democratic government. Awarding the kind of pay increases demanded would sabotage the Government's efforts to impose the sacrifices of austerity fairly throughout Argentine society and would rekindle the sense of the military's being a separate and privileged caste.

As for acceding to the removal of Gen Caridi, this would impinge directly on President Alfonsin's own authority. Gen Caridi is the President's personal appointee who has been trying to modernise the army, the most reactionary of the services and the one most heavily involved in human rights abuses.

Gen Caridi could be criticised for having pursued a promotions policy that singled out officers more for their political loyalty than their professional ability. However, the bulk of the army appeared to accept the need for a new role under a democratic government. Thus to permit a minority of disgruntled officers to dictate senior appointments would inevitably jeopardise the command structure and call into question the entire policy towards the military since President Alfonsin was elected five years ago.

Too conciliatory

In dealing with the two previous rebellions President Alfonsin was understandably reluctant to be considered responsible for bloodshed. To avoid this and a possible split in the armed forces, he was, if anything, too conciliatory. Although the authorities insisted no deals were made, the whiff of government compromise remained after both rebellions. This probably explains why the rebels are pushing their luck again.

The rebellion has lasted four days now precisely because the Government has shrunk from the consequences of using force. Yet no one will blame President Alfonsin if lives have to be lost in an efficiently managed operation to crush the rebellion.

There is of course the risk that loyal troops will not obey orders. But the consequences of not dealing speedily and firmly with the rebellion are infinitely more grave. To give in would undermine President Alfonsin's credibility, leaving a lame duck leader until presidential elections in May. Worse, it would profoundly weaken Argentine democracy.

Charles Leadbeater previews today's UK white paper on training

Time to change the culture

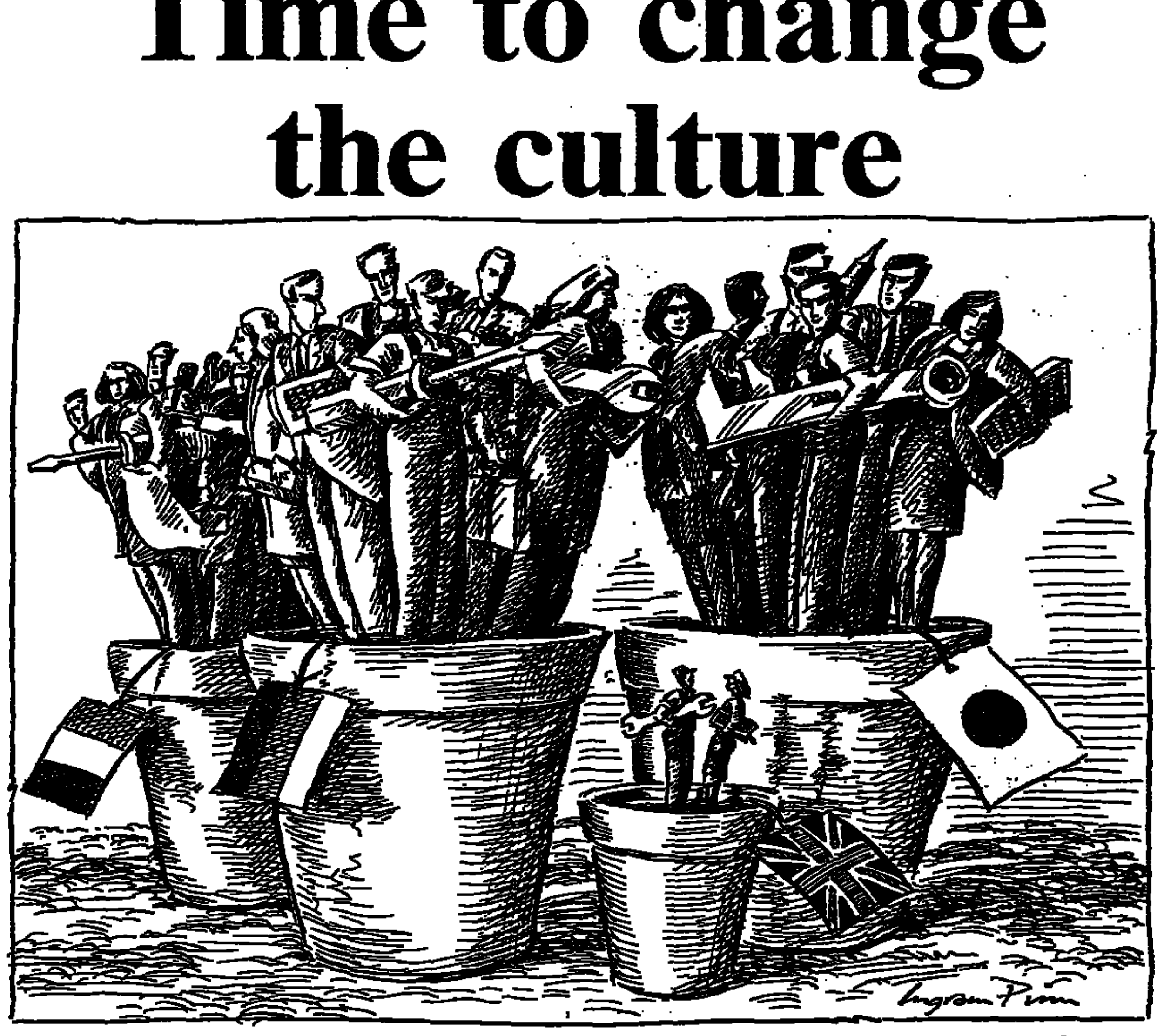
The British Government's most successful policies can be summed up in terms that have become catchphrases for the 1980s – privatisation, consumer choice, value for money, curbing union power.

In contrast the Government's policy on training is usually described by Department of Employment officials with a deluge of ugly acronyms, which mean little to most people: TVEI (Training and Vocational Education Initiative), CPVE (Certificate of Pre-Vocational Education), NAFE (Non Advanced Further Education), YTS (Youth Training Scheme), JTS (Job Training Scheme), ET (Employment Training) and NVCQ (National Council for Vocational Qualifications), to name a few.

The list is a mark of the confusion created by the piecemeal introduction, over the last few years, of schemes and projects aimed at improving everything from vocational education for 14 year-olds, to the supply of higher level professional skills. It signals considerable energy and activity, but widely dispersed and unco-ordinated. Training in Britain is probably better than it was, but it is still a mess.

Mr Norman Fowler, the Employment Secretary, might clear up some of the mess this afternoon with the publication of a white paper on training, which is intended to set in motion the most far-reaching overhaul since the creation of the statutory Industrial Training Boards in 1964. The centrepiece will be a plan to establish local employer training councils, modelled on West Germany's Chambers of Commerce and private industry councils in the US. These will take responsibility for providing and encouraging training in their areas.

Will Mr Fowler set training policy on a clear path, or will he merely add another set of initials, like LTC (local training council), to a list which is already far too long? If he is to succeed, he will need to explain how he expects the white paper will help to encourage or force employers to overcome a daunting list of problems which make up Britain's skills deficit.



In West Germany some 30 per cent of youngsters leave school at about 16 with an intermediate certificate for which they are assessed on an average of 10 subjects which include compulsory German, mathematics and a foreign language. Only 12 per cent of English school-leavers reach a comparable level.

The average German standard for the lower half of the ability range is the same as the average for all English pupils. The average Japanese 13½-year-old knows more mathematics than the average British 15-year-old. In Japan more than 95 per cent of young people are in full-time education to the age of 18, compared with 32 per cent in England. About 38 per cent of Japanese 18-year olds enter higher education; so do 48 per cent of North Americans. Only 15 per cent of British youngsters take that route.

In West Germany about 600,000 young people a year embark on a three-year training course in industry and commerce leading to a vocational qualification. Between two and three times as many people qualify as fitters, electricians, and building craftsmen as in Britain and about five times as many as clerical workers.

According to a recent report by the National Institute of Economic and Social Research, France has made considerable headway in the 1980s towards creating a vocationally qualified workforce capable of matching the Japanese and West Germans.

The French train two to three times as many electricians and mechanics – more systematically and to higher standards – as the British, through a system of vocational schools. In contrast Britain relies on the two-year Youth Training Scheme. But the majority of young people who pass through it do not gain a vocational qualification, and of those that do, most gain only the most basic qualifications available.

Thus Britain remains close to the bottom of the international training league table, despite annual expenditure by employers of £18bn a year, according to a forthcoming international analysis commissioned by the Department of Employment's Training Agency. About 85 per cent of the £18bn goes on trainees' wages and other labour costs. Only £3.75bn went on training materials.

The survey found that half of all employees received no training in 1986-87. A third of employees said they had never received any training. A fifth of companies provided no training, less than a third had a training budget and only 20 per cent evaluated the effectiveness of training. There was a marked lack of enthusiasm for training among adults. More than half said they had no plans to undertake training for the future.

A recent report by Professor Charles Handy for the National Economic Development Office found that 63 per cent of West German managers had a degree, and 51 per cent of senior managers in the US had a second degree. Only 21 per cent of British managers have a degree. One in five UK companies makes no provision for management training, rising to 75 per cent among smaller companies.

The inadequacy of Britain's investment in education and skills has contributed to the recent worsening of skill shortages. While these have not reached the levels of the 1970s, a recent NEDO report on the electronics industry suggests skill shortages are much more ingrained and persistent in the UK than elsewhere.

Better training should help the labour market by providing workers with the skills to fill job vacancies. It should also gradually move the economy to a higher level of skill, productivity, and value-added output.

Too much of the British economy operates at a "low skill equilibrium," with poorly trained workers employed by companies making products with a relatively low skill content. Training policy should move the economy towards a "high skill equilibrium," where companies can innovate products and processes for growth markets, because their workers are more professional and adaptable.

The chief task for most companies is not merely to introduce more flexible working practices, but to ensure they have staff equipped to exploit them to the full. That means, for instance, managers trained to run just-in-time production systems, supervisors to motivate and organise the work of shop-floor work teams, and workers who have the skills to pick up a range of jobs, and to contribute to quality and innovation.

The more flexible working practices introduced in the 1980s were a big step from the demarcation lines of the 1970s. But in many companies it has been at best an uncertain, interim step. They are clearer about what they are moving away from, than what they want to move to. If the flexibility of the 1980s is to be developed into new production methods for the 1990s, companies will have to invest more heavily in the skills of their managers and workers.

In the same way the Government's agenda needs to move on from trade union reform in the early 1980s, aimed at expunging the past, towards a more positive, modernising agenda for how the labour market should develop into the 1990s. Despite wide-ranging reforms the labour market remains the glaringly weak link in the British economy, in large part because of the inadequacy of the training system

But how can a Government committed by ideology and public proclamation to avoiding direct intervention in markets correct the underlying weakness of Britain's low-skill labour market? An underlying consensus is emerging about what might be done to improve vocational education and training. The views of senior managers, personnel directors, training specialists, educationalists and unions can be distilled into a clutch of desirable objectives:

- Clear targets should be set to raise the proportion of young people who remain at school after 16 to internationally competitive levels. The variety of vocational education initiatives should be brought together to form a clearer, simpler route for vocational education from 14-18. Vocational education should form part of every child's education, but there should be opportunities to specialise. The plethora of schemes to link schools and businesses needs to be brought together and simplified.
- The Youth Training Scheme needs substantial reform to raise standards. Some schemes should run for at least three years, if not longer, to equip people with higher level skills. The minimum period of off-the-job training should be more flexible to match different trainees' needs. There should be clear targets for the output of the scheme in terms of vocational qualifications. Training organisations which under-perform should be penalised.
- There should be a new vocational training entitlement – an annual period of training or education for 19-24 year olds, financed by Government, employers and individuals. All young adults should be encouraged to study, not merely the minority who go into higher education.
- The Government's programme for the long-term unemployed should be gradually improved to provide more training. It should be matched by two new schemes: first, a scheme to ensure that redundancies are linked to retraining, to avoid newly unemployed people becoming long-term unemployed; and second, a scheme to retrain workers over the age of 55, who wish to return to work. This will be vital to combat expected shortages.
- Britain needs a comprehensive, clear, system of vocational qualifications. This is slowly being developed by the National Council for Vocational Qualifications. It needs to be matched by the establishment of a national system of skill assessment centres, like driving test centres, to make it easier for people to gain accreditation for skills learnt on the job, for instance.
- Employer-led local training councils should be provided with budgets and given responsibility for overseeing programmes for both unemployed and employed. Over time, Government funding should depend on matching, and eventually majority, employer funding for training. Government money should be disbursed only if accompanied by tight performance targets on vocational qualifications, throughput of trainees and job placement.
- Many of the voluntary employer training bodies, which replaced the 17 Industrial Training Boards abolished in 1981, are seen as ineffective. Employers within each sector should be under a statutory obligation to set up such a body with performance targets, including carrying out training audits of their industry. The six remaining training boards, which have the power to raise training finance from industry, should remain in place for the time being.
- To pull together this ideal policy, says the emerging consensus of training enthusiasts, every worker should be given a training passport. It would record achievements, qualifications and credits towards qualifications. It should also embody a statutory employment right to a set period of training, say initially 10 days a year, to be be financed through occupational training funds, akin to occupational pension funds. Companies should be under an obligation to set up such funds, and workers under an obligation to contribute.

Most employers and the Government argue that a statutory training levy would be inefficient and bureaucratic. But that only rules out one form of statutory action. Statutory occupational training funds could be tailored to the needs of particular companies and workers. They would be managed, administered and policed within companies rather than by time-consuming inspectors from a training board.

The white paper will establish local training councils and set in train reviews of other arrangements. But it is unlikely to suggest occupational training funds, even though senior Employment Department officials are keen on the idea – and even though such funds could help provide the long-term commitment to training that, many argue, the UK now needs. Improving training in Britain will require transformation of a culture based on energetic amateurism to one of confident professionalism. But to start the process, employers, unions and workers need a short sharp shock.

Was anyone right?

■ All outside forecasts last spring of the UK's balance of payments deficit for 1988 were as wrong as the Treasury's, Chancellor Lawson told the House of Commons last week. The Treasury guessed at £4bn (less than 1 per cent of GDP) in the Budget Red Book in March, largely, it said, "as a result of the projected decline in the oil surplus. The deficit on non-oil trade is forecast to show little further change from the level in the second half of 1987."

As we now all know, the actual number is likely to come out nearer £14bn, or over 3 per cent of GDP and, on that basis, rather worse than the American deficit.

The Chancellor has incensed Christopher Story, editor and publisher of the *International Currency Review*. In his March issue, Story wrote of a sharp deterioration in Britain's trade position, with a deficit "running at perhaps £10bn to £12bn per annum at the end of this year, and still widening". Story says that the Treasury has subscriptions for no less than six copies of his journal. Does nobody in Great George Street read them? he wonders.

Lawson has dismissed some of his critics as "teenage scribblers", a phrase once associated with a former Chancellor, Denis Healey. The term has stuck in the City. Some of them are taking part in a Teenage Scribblers Conference on economic prospects shortly before the next Budget (admission £130 plus VAT). Among them is Gordon Pepper, scarcely an adolescent.

What we want to know, however, is whether anyone else can prove that they were forecasting a £10bn-plus UK balance of payments deficit for 1988 last spring. Otherwise, a modest reward will go directly to Christopher Story by the end of this week.

OBSERVER

Light matters

■ A young Japanese, working in London for the first time, is perhaps less diplomatic than some of the old-stagers. He says that there are two things that really bother the Japanese community here. One is the blandness of the food, especially the rice. The other is the quality of the indoor lighting.

On the food he is, of course, quite right. But it occurs to me that he is also right about the lighting. The English indoor lighting system is not made for reading. My contact says that he has discussed this with his fellow Japanese. They agree with him, but have advised him that it is not polite to say so in public. So what the Japanese in London are now doing is carrying around a stock of extra-strong light bulbs which they insert whenever they have the opportunity and the need to read.

Treasury gains

■ John Wakeham, the Leader of the House of Commons, has come up with a response to those who claim that the Government's privatisation policy is simply a device to sell state-owned assets cheap. Wakeham asked the Treasury to make an estimate of the benefits to the Exchequer through corporation tax from privatisation since 1979, and the answer was over £22bn.

Sugar's degree

■ Alan Sugar, the lad from the East End of London who left school at 17 to found Amstrad, Britain's best known consumer electronics company, is going back to college today. He is being made an honorary

"I had this nightmare – I was found guilty of disloyalty and banished to the Malvinas."

Doctor of Science at the City University.

Sugar's relations with the University have flourished ever since he lectured its business school last year advising budding multi-millionaires to avoid journalists, Americans and a lot of other unseemly groups besides. Since then, he has funded a research studentship in innovative marketing, held seminars with MBA students, allowed City's students to develop new products under his tutorship and invited City graduates to join Amstrad as assistants to its directors.

The University will no doubt be hoping for more of the same after the doctorate. But anyone wondering whether Sugar is about to settle for the role of an elder statesman should pause for thought. He can still be quite rough.

Sugar went to Brussels last week to lecture the Commission on what he regards as the iniquities of Europe's anti-dumping laws which, he says, are blocking the free flow of goods between the Far East and Europe, central to Amstrad's operations.

The meeting was heated, and the word is that Sugar accused Commission officials of being the unpaid marketing department of Philips and Thomson, the European consumer electronics groups which benefit most from anti-dumping actions. Thus Sugar remains very much a Thatcherite man, and the City continues to look up to him because he has not quite had the downs as well as ups of (say) Sir Clive Sinclair.

Buzz words

■ Longman is publishing a Register of New Words, from which there is undoubtedly much to be learned and all of which are apparently "in". Gai-ge is the Chinese for perestroika, as used in The Economist, no less. Another Russian word that is about to hit us is khozraschot which means economic accountability. A British £50 note is called a jack. A juppy is a Japanese yuppy. A Mockney is not a derivative of a David Hockney drawing, but someone who tries to put across a proletarian image. A fuzzy navel is a cocktail made from peach schnapps and orange juice.

There is also Keith's mum, a stereotype of a well-meaning but dim middle-aged woman of representatively average views. Sid is defined as a "side-impact dummy: a human-like dummy used for testing the effect of side-on collisions on car passengers."

Irish wisdom

■ Charles Haughey got it about right in an interview on BBC Radio 4 yesterday. He was asked whether the Ryan affair had placed an undue strain on Anglo-Irish relations. The Taoiseach thought for a while before replying: "Anglo-Irish relations are very rarely normal."

Michael Field in Baghdad asks whether an enterprise culture can succeed under Iraq's political regime

A grip that strangles reform

A little more than three months *ago*, everything seemed to be going well in the world *of Saddam Hussein*, the Iraqi President. He had forced Iran to sue for *peace in the* Gulf war; he was developing leadership ambitions in the Arab world; he was in total control of his country and had set out to consolidate that hold with a ferocious campaign against Kurdish rebels.

With an eye on the future, Saddam appeared to be promoting his family as a ruling dynasty. The people closest to him – several of his ministers *and military commanders* – had married his relations. His elder son, Uday, who at the *age of 25* was president *of* Saddam University and head of Iraq's Olympic committee, was *being* groomed as a possible successor.

Since the summer, not everything has gone quite according to plan. With the Geneva peace talks with Iran still stalled, the outcome of the war is looking less like a famous victory for Iraq, while the furious international reaction to Iraq's use of chemical weapons against the Kurds has evidently caught Saddam off guard.

The fact is that the real constraints on Iraq's development are not short-term financial but long-term structural

At home, the President has had to contend with unexpected ructions *surrounding his son. On October 18,* Uday killed a much-loved bodyguard. Saddam's wrath was terrible. A rift had been created in the informal family of retainers that is the best *guarantee* of the Iraqi regime's security, and Saddam's plans for the succession had been shattered. On November 21, *Saddam* ordered the Minister of Justice *to investigate* the killing, saying that it was his constitutional responsibility *to enforce justice and that* nobody could be exempted. Although Uday has since been released from jail, there is no doubt that the incident has been something of an embarrassment.

The episode says much about Saddam. He is vain and ruthless but apparently uncorrupt and, by his own standards, fair. However, the country he rules has a bloody history. Its people *are split into religious and ethnic* groups whose relations with each other have been marked by rebellion and massacre. The conventional wisdom of its own citizens and Westerners *in the* country *is that* Iraq can only be ruled harshly.

Now that the Gulf War is over, Iraq is re-emerging as a major Middle Eastern economy. *It has the advantages of* great amounts of oil, two rivers (the Tigris and Euphrates), *and a much* bigger indigenous population, 13m to 14m, than any of the other Arab Gulf states.

As in Iran, the talk in Iraq is of reconstruction. But here, too, all is not going to be plain sailing. The problem for exporters, as for the Iraqis themselves, is that Iraq's development is liable to be stultified by its politics.

The immediate emphasis in reconstruction is the rebuilding of the *front-line city of Basra. Elsewhere,* there is more talk of restarting the development of the economy than of reconstruction in the formal sense. In the oil industry, the Government has a series of projects which are considered to be of immediate strategic importance. *In other sectors there will* be less emphasis on infrastructure than *there was in the 1970s, and more* on productive projects – especially profitable ones.

There is no doubt that Iraq has the oil to finance this development. Its reserves, officially estimated at 100bn barrels, may rank second in the world to Saudi Arabia.

At present, Iraq is exporting 2.4m *barrels a day, but in a year it will be* able to export 4m b/d and in three or four years maybe 7m b/d. It has already persuaded Opec to give it the same production quota as Iran – 2.64m b/d. Given its military prestige and the million men it has under arms, it would be out of character *if in future it did* not try to expand this.

This year, Iraq's revenues from its own oil production and the oil that Kuwait and Saudi Arabia give it may be $11bn. For the foreseeable future, much money will be continue to be spent on the army, mainly because it is unlikely that there will be complete peace with Iran.

But the country also has heavy official debts. It owes $35bn to Arab friends, who may never be repaid, and *$30bn-$35bn to OECD and Eastern* Bloc companies and export credit agencies.

The Finance Ministry has offered to repay each of its creditors all that it owes them, but has warned that if it does this it will not have money available to trade with the countries concerned in the foreseeable future. *Other* proposals, made to each country, are that Iraq should make a small net repayment while most of its credits are renewed, or that its debt *should remain static, or that it should* be expanded – though *it* is stressed

Saddam Hussein: brutal rule leaves little room for private business

that any increment must be medium-term project-related debt.

The Ministry says that none of its *creditors have opted for total repayment* and that there is great interest in the last two options. But while Britain has agreed to double (to £340m) the sums it will guarantee for trade with Iraq in 1989, the Japanese and Germans (with respectively $6bn and $3bn outstanding) are intent on shrinking their debts.

The fact is that the real constraints on Iraq's development are not short-term financial but *long-term* structural.

The country is poorer agriculturally than it seems. The land around the Tigris and Euphrates is quite unlike the intensively cultivated Nile delta. Much of the land is saline. It is likely that the flow of the Euphrates will be greatly reduced in future by irrigation projects in Turkey and Syria. What is more, Iraq lacks the labour to *increase agricultural output greatly.*

The Government has been trying to stimulate other sectors of the economy, services and industry since last year by abandoning socialist dogma. *In early 1987, Saddam Hussein formalised* a change that had been under way for some time by announcing that the private sector was to be encouraged to play a role in the economy. The Government felt that private businessmen could run smaller factories and other enterprises more efficiently than it could itself, and it needed their resources.

Equally important, Saddam thought *that the development of the private* sector would create a new body with an interest in the maintenance of his regime.

Since the new policy was announced, the state has sold all its agro-industrial enterprises and many of the country's small factories, at prices which are very attractive to any war contractor who has money abroad. Capital from the Gulf is welcome *and in certain cases* Western companies will be allowed to invest.

If the private sector uses its own foreign currency held abroad, it may now run importing businesses. Early this year, price controls were lifted on all goods

None of this is likely to produce the economic revolution which the Iraqi Government *wants. Retailers* have reacted in a predictable fashion by *forming cartels to raise* prices

The owners of privatised industries *seem likely to extract as much profit* as they can from their companies, and reinvest little in expansion. Their cautious instincts are reinforced by long-term political uncertainty and a battery of awkward regulations. It is difficult for anyone who does not have his own stock of foreign exchange to import. The Iraqi dinar is four or five times overvalued. Nobody may leave the country without authority.

The Government acknowledges all these *problems but says it has no* choice but to try to exploit the private sector's resources. What is never said

What is never said officially is that the political system of Iraq will not allow the development of private business

officially is that the political system of Iraq will not allow the untrammelled development of private business.

Saddam's rule is too brutal. Those who have challenged the President, with his extraordinary cult of personality, have been executed. Government *officials* and ministers who are found guilty of corruption suffer the *same fate. Those charged with corruption* since the beginning of last year include *the mayor* of Baghdad, who was hanged, and the Minister of Health, who was dismissed in May along with 22 other senior officials. He, too, is now reliably reported to be dead, the second man in the job to have lost his life in the last five years.

Even businessmen used to making long-term investments might hesitate *to commit their capital to industries* in a society such as this.

Despite recent promises of reform – including a suggestion that political parties other than the ruling Baath party will be allowed – Western observers see no sign that the President's grip is being relaxed. Iraq's major problem is that it lacks the type of political system and society on which an enterprise culture *and its very able middle class* can flourish.

Declining private sector saving

Time to end the pension holiday

By Alec Chrystal and Gordon Pepper

The current problems with the balance of payments *deficit arise* by definition because domestic spending exceeds domestic production. A sharp deterioration in the external position has arisen despite the public sector moving into substantial surplus. Hence, the private sector must be exhibiting a very substantial financial deficit. Part of this may be the company sector borrowing to finance investment, but there is no doubt that the most troubling element is the decline in personal sector net saving. The economy would be a lot healthier in both the short and long run if savings were to rise.

Against this background it is remarkable that an important influence forcing a decline in saving is the rules applied by the Inland Revenue to pension schemes. Pension and insurance funds currently represent *about two-thirds of the* net financial wealth of the personal sector. Contribution holidays have been encouraged by the 1986 Finance Act which requires that surpluses in excess of 5 per cent must be liquidated within 5 years if tax penalties are to be avoided. Many *employers* are choosing not to pay contributions for a year or so, after which time full contributions (in some cases of the order of 25 per cent of income when employer and employee contributions are combined) will be restored. Surpluses have occurred because dividends on ordinary shares have risen, real interest *rates have been higher in* the last decade than before, and schemes have gained from employee turnover or redundancy.

We consider that these holidays are inappropriate, both from the perspective of the prudent management of pension funds and from the perspective of medium term goals *of macroeconomic policy.*

The 1986 Finance Act permits reserves only to cover benefit liability in respect of past service. No provision is allowed at all for future service benefits. Clearly, funds should be permitted to build up some margin of reserve against expected future liabilities rather than being forced to cover merely their accumulated existing obligations.

We would urge the Government to give consideration to *some or all of the following* suggestions:

- Pension holidays should be called off from the earliest possible date, while a study of the appropriate pension fund targets and tax treatment is instituted. We would expect a review to recommend most of the following suggestions.
- Actuarial calculations of "surpluses" should include future service benefit in so far as costs of accruing benefits rise with age of the member.
- The period over which surpluses must be eliminated should be extended to, say, 20 years.
- Refunds from pension funds to the employing company *should be prohibited.* The money was originally paid in lieu of wages and should be treated as the property of the employee. Accordingly, individual rights to pension equity should be strengthened, especially where job changes or redundancy are involved.
- Contribution holidays should be abolished or severely restricted. The annual level should not be lower than that needed on average over some long time period, as certified by the actuary to the scheme. It makes no sense to have erratic payments; a "moving-average" adjustment would be far more sensible.

Recent tentative survey evidence reported in the Financial Times suggests that around 40 per cent of employers and 10 per cent of employees are enjoying a pension holiday. (The asymmetry here raises questions in itself.) If this is correct, contributions are being reduced by about £4bn or *one percentage point of the* savings ratio. A shift of £4bn in fiscal stance would be regarded as significant. Hence we believe that these simple proposals could make a real contribution in the present macroeconomic environment.

The authors are professors at the City University Business School, London

LETTERS

No paradox at all

From Mr Martin Spence.

Sir, Samuel Brittan writes: "The greatest paradox of Thatcherism, and to some extent Reaganism, is the contrast between their economic individualism *and their authoritarianism* in other areas." (December 1).

This is only a paradox if "economic individualism" and "authoritarianism" are considered in the abstract. In the real world there is no paradox at all.

Mrs Thatcher and her supporters have always known that the pursuit of "economic individualism" means deliberately crippling or destroying a whole set of social and political institutions which are based on principles of collectivism and public service – institutions such as free trade unions, elected local authorities or our *whole tradition of public* service broadcasting.

Her authoritarianism is not some aberration or "paradox" to be resolved. It is part and parcel of her project – a project which, as Mr Brittan also points out, has never been endorsed by the majority of the British people.

Martin Spence,
31 Harrison Place,
Sandyford,
Newcastle upon Tyne.

The cost of BSC's success

From Mr Dave Stoddart.

Sir, Mr Christopher Beauman's letter (November 29) attributes the turnround in the British Steel Corporation's fortunes entirely to the board and management of BSC. But his paean of praise fails to make even a passing reference to the contribution and sacrifices of the workforce. Productivity, measured as output per worker, has doubled since 1980, but a very high price has been paid for this achievement.

Over the same period the workforce was cut from 140,000 *to 50,000. This has had a devastating* impact on the steel communities, where unemployment remains over 15 per cent. Such costs are conveniently omitted in the calculation of British Steel's much publicised profit figures, and will continue to be borne by the taxpayer long after BSC is privatised.

Mr Beauman also *fails to* draw the logical conclusion that public sector industry can be competitive, and that this Government's obsession with privatisation is based on ideological rather than economic foundations.

Dave Stoddart,
MSF (Manufacturing/Science/Finance Union),
79 Camden Road, NW1

Telepoint competition should be fair

From Ms Carolyn Hayman.

Sir, Your leader on the telepoint licences (November 28) suggests that competition would be maximised by issuing four licences – including one for British Telecom (BT) – and uses the analogy of cellular telephony *to support the argument* that BT would not necessarily *end up* in a dominant position.

Why then are the other 10 licence applicants (including the one in which we are a shareholder) united in their opposition to Oftel granting a licence to BT? *I suggest it is* because the analogy with the *cellular market is, in fact,* misleading.

In that case both BT/Securicor and Racal/Millicom had to build completely new networks from scratch, and Racal could get interconnection services from Mercury, which was not a player. This provided a reasonably level playing field.

With *telepoint, however,* BT has a head start, because it will already operate in about 500,000 sites, including both public and private payphones. It is inconceivable that the ability to share or switch these sites *with the new telepoint* service will not provide substantial benefits.

Moreover, if BT gets a licence it seems probable that Mercury will, too. This will leave other players (if there are any) with no option but to go to a direct competitor for the line connection without which the base station licence is useless. For example, if three network operators all wish to put base stations in Heathrow Airport, *is it fanciful to imagine* that those belonging to BT and Mercury will be connected and operational some time before the third operator's?

Your leader writer expresses great faith in the ability of the *current regulatory apparatus* to ensure fair competition for all players – a view shared by very few with experience of competing with BT in core services.

Would it not make sense, therefore, for Oftel to issue three licences now, and hold one in reserve which could be granted to BT, if the original three either fail to create a market, or create a market insufficiently competitive? (Clearly, *as a prospective participant*, we believe this situation will not arise.)

In this way, alternative operators will be given a chance to flourish in a fair marketplace, but the undoubted strength of BT can be mobilised if necessary.

Carolyn Hayman,
Korda & Co,
Charterhouse Walk,
78-80 St John Street, EC1

Politics v. business in South Africa

From Mr Chris Jones.

Sir, Mr Gerry Pocock, international secretary of the Communist Party of Great Britain, is being disingenuous (November 25) when he sarcastically questions how "apartheid manages to survive at all" when powerful business interests – as reflected in "The Voice of South Africa Business" advertisements in the FT – are against it.

The SA nationalist movement has been slugging it out with SA business at least since 1922, when Nationalists and Communists united *to oppose* the mining industry's plan to issue blasting *certificates* to black miners.

Some 30 years were to pass before the SA Communist Party embraced the cause of black emancipation. By that time the Nationalists were into *their current 40-year reign, and* the Communists were heading for exile.

SA nationalism, like the *extremes of European nationalism* before 1945, has an ideological *dislike* of international capitalism. To imply, as Mr Pocock *does, that* SA business is pro-Nationalist and pro-apartheid because it is anti-sanctions is misleading.

My own view is that sanctions will achieve nothing more, and that the international community must look to other strategies. Contrary to the popular myth, SA is not a fabulously rich country: its gross domestic product per capita is comparable to Cuba's or Algeria's; and falling. Whoever rules SA in the future will *face serious problems of underdevelopment*, which in turn will threaten the *development* of a more just political system.

A key *factor in the defeat of* nationalist extremism in Europe after 1945 was the rebuilding of shattered economies through Marshall aid. South Africa and the related economies of the front-line states are in need of similar help. The international community should address this problem now.

Chris Jones,
20 Wilberforce Road,
Sandgate,
Folkestone, Kent.

Clockwatching

From Ms Christina Speight.

Sir, Mr *P.P. Montgomery* (Letters, November 25) wants the whole UK population to get up in the dark for much of the year so that he can do business more easily with Europe.

In this company, which deals internationally, we adjust our working hours accordingly and rarely stop for lunch. In addition, if we are to put our clocks forward an hour we shall have one hour less to deal with New York and will stop work before California has started.

This hardly seems a recipe for business efficiency. The Americans can run an economy with three time zones.

Christina Speight,
Company Watch,
44 Aylmer Road, W12

FINANCIAL TIMES
Monday December 5 1988

Janet Bush in Boca Raton, Florida

Taxing time for the market men

As the Securities Industry Association met last week for its annual convention here, the weather seemed to be on the side of liberal scepticism and out to undermine the ideological right.

Torrential rain throughout the first day ensured a full house for the keynote speaker, Tom Wolfe, author of Bonfire of the Vanities which described the money fever which swept New York in the 1980s and which dubbed bond salesmen Masters of the Universe with some little irony.

The rain continued through the second day when conventioneers heard speeches by, among others, Marty Zweig, the whizz forecaster, who said it was ridiculous anyone trying to predict where the Dow was headed, and Jo Plumeri of Shearson Lehman Hutton, a master salesman who cheered everybody up by being positive about retail investing.

On the third day, the sun came out just in time for the closing speech by the Honourable Robert Bork, the judge most famous for being turned down by Congress for the Supreme Court because they *said he was too far to the right.* Few could resist the temptation of the golf course.

It is difficult to judge what the presence of Wolfe and Bork at the same event can possibly say about the character of the securities industry nowadays. Perhaps it means the industry can laugh at itself and take itself very seriously at the same time, which is true. Or maybe it was just an attempt to distract brokers, dealers and syndicate managers from these glum days in their business.

It is just over a year since the stock market crash and a certain sobriety has replaced the fear of last year's convention. The many companies which have not entered the spectacular world of leveraged buy-outs (LBOs) and mergers and acquisitions believe there is little ahead apart from a prolonged period of low commissions, extreme investor caution and the daily grind of simply trying to make a living and serve their customers.

For many in this industry, the future seems to rest on events out of its control. It is a little strange attending the Boca convention these days. There is an odd sense of isolation from the main event. In 1987 that event was the merger of Shearson Lehman and E.F.Hutton, two giants of Wall Street. This year, it was the wait for criminal indictments or for a settlement in the Drexel Burnham Lambert case and the apparent conclusion of the sale of the century as the board of R.J.R.Nabisco delivered itself into the hands of Kohlberg Kravis Roberts.

Talk at the convention was dominated by questions for the most part swept under the rug during the election campaign. This collective amnesia had allowed a semblance of stability to settle in on Wall Street and in the regions but that has now dissipated. The gloom of low volume has given way to a sense of impending doom.

Yes, there were old chestnuts like market volatility, banking deregulation, the perils of institutional basket trading and the need to strengthen market systems. And there were some new chestnuts, notably LBOs and the mountain of debt they involve.

But dominating all was the budget deficit – a huge storm cloud which hung heavy over the cocktail party chatter. Although faintly embarrassed revellers at the last night party gamely joined in with the chorus of "Celebrate good times c'mon!", it all seemed a bit like the fiddle while Rome burns.

There was a sense that the old rules of the game have been superseded by something larger and more frightening, whether that be the threat of international competition from overseas institutions untrammelled by Glass-Steagall or whether that be recession.

There was some conception (once you got passed the normal bravado) that simple profit may have to give way to a notion of the greater good. Many in Boca not only said they thought higher taxes were inevitable but that the industry would support a Bush initiative to raise revenues in order to cut the deficit.

If Boesky was the bogey man of the 1986 convention and programme trading the nightmare of 1987, then 1988 was dominated by one awful thought: higher taxes.

Tom Wolfe provides a simple solution which appeared to attract considerable support at Boca: the US should go public and then hope for someone to launch a takeover bid; after all, eveyone comes out ahead in a takeover, don't they?

Angola peace setback as Castro attacks Pretoria

By Anthony Robinson in Johannesburg

PROSPECTS for a negotiated end to the Angolan war and for Namibian independence worsened yesterday as Angola and President Fidel Castro of Cuba denounced South Africa for its "arrogant and disrespectful walk-out" from the latest round of US-brokered peace talks in Brazzaville.

President Castro: threat to keep troops for a decade

Mr Castro also threatened to keep Cuban troops in Angola for another decade if necessary.

The South African delegation was led by Mr Pik Botha, Foreign Minister, and Gen Magnus Malan, Defence Minister. They had flown to the Congolese capital on Friday to reinforce the technical negotiating team led by Mr Neil van Heerden, Director-General of Foreign Affairs.

After two days, they broke off the talks and ordered the entire delegation back to Pretoria in the early hours of yesterday morning for consultations with President P.W.Botha and the rest of the cabinet.

Foreign Minister Pik Botha insisted yesterday that the peace process was irreversible and that talks to sign a protocol could resume this week. He appeared to be optimistic in *interviews reported by the* independent South African Press Association (Sapa) and the government-run Radio South Africa.

"The process is irreversible," he said. "We continue to progress step-by-step." The radio report quoted him as saying the talks "could be resumed within a few days" and a protocol signing was "still a possibility." The cabinet needed to take some time in assessing the situation, Sapa quoted the minister as saying.

Senior South African officials on the return flight to Pretoria said no time or place had been agreed, however, for a subsequent meeting or for signature of the protocol on a timetable for the withdrawal of 50,000 Cuban troops and implementation of UN resolution 435 for Namibian independence.

Angola, Cuba and South Africa signed an outline agreement in Geneva on November 15. The formal protocol was due to be signed by all the parties at Brazzaville.

The main sticking point is South Africa's insistence on "acceptable" verification of all stages of the Cuban troop withdrawal, which is due to be phased over 27 months.

South Africa is reasonably satisfied with arrangements for the first seven-month period during which crack Cuban divisions now deployed in southern Angola will be drawn back north of the 13th parallel. This withdrawal to positions north of the Benguela railway will be monitored by a special UN team working with Angola and Cuba.

The problem arises over monitoring troop withdrawals from the northern part of the country over the subsequent 20-month period. Pretoria is not demanding physical participation in any monitoring team but it does demand a mechanism for verification and the checking of any suspicious developments.

According to the South African side, neither Angola nor Cuba is willing to accept this demand. Mr Castro has publicly rejected any role for South Africa in the verification process.

It remained uncertain yesterday how far the Soviet Union was prepared to support the Cuban stance.

Shortly after returning to Brazzaville from Kinshasa, where he had talks with President Mobutu Sese Seko of Zaire, Foreign Minister Pik Botha held two hours of informal talks with Mr Anatoli Adamishin, a Soviet Deputy Minister of foreign affairs.

The meeting marked the first direct talks between senior Soviet and South African officials since peace negotiations began in London.

Japanese businesses advised to win Europe's hearts and minds

By Guy de Jonquières, International Business Editor, in London

LEADING Japanese companies are being advised not to set out *aggressively to conquer the* European Community's planned single market, but to concentrate instead on winning European hearts and minds.

The recommendations are made in a report for 20 of Japan's biggest electronics manufacturers on how to prepare for 1992. The report is by Cores, a Japanese-owned consultancy which specialises in advising companies on how to penetrate foreign markets.

It emphasises that a top priority for Japanese companies operating in Europe should be to combat protectionism. It warns that they could aggravate political hostility if they over-react to 1992 by competing too fiercely against local companies.

It says Europe is weak in several electronics sectors, notably components and office and factory automation, and that leading electronics companies such as Philips, Thomson and Olivetti are urgently restructuring themselves in an effort to stay competitive.

"Much depends on the success of these companies in the internal market. If their survival is threatened, the EC will move to a protectionist policy. It is too early to say whether *their restructuring will be* effective."

The report says only "genuine insiders" will enjoy long-term success in the single market and that much production, research and development, design and strategic decision-making will eventually have to be done in Europe.

Japanese companies should aim to gain a say in EC decisions on 1992. They should combat trade restrictions and win influence with European decision-makers by mounting a lobbying and public relations campaign from inside the EC.

"Japanese companies need to create positive public acceptance by European public opinion, especially as they start to fight more actively EC trade regulation measures," the report says.

It advises Japanese companies in Europe to:

- Join every local industry association and engage professional lobbying and public relations companies to promote their interests and images.
- "Appoint local political-establishment figure as non-executive chairman of national company to open doors for lobbying of national officials and politicians."
- Set up an EC-wide intelli*gence gathering network and* appoint European legal and financial experts to monitor single market developments.
- Gradually replace Japanese executives in Europe with locally-recruited managers.

For political reasons, Japanese companies should consider scattering their European investments across several countries, rather than centralise them in one location, the report suggests.

It says other EC countries have criticised Britain for accepting too much Japanese investment. By dispersing their operations, companies could forestall protectionism.

The report does not believe EC leaders want to build a "Fortress Europe" but says there are strong protectionist forces in industry, in the European Parliament, at lower levels of the European Commission and in some national governments.

The threat of anti-dumping cases against Japanese companies could grow after 1992, the report says.

* *European Community 1992; Cores Europe, 7 Old Park Lane, London W.1. Tel: 01-409 3535. £3,500.*

Sombre start to trade talks

By Peter Montagnon and William Dullforce in Montreal

TRADE MINISTERS from some 100 countries start their attempt to accelerate the pace of the Uruguay round of trade liberalisation in Montreal today in sombre mood, following the failure in the past two days of informal discussions to break the impasse between the US and the European Community over agriculture.

Both sides appeared to be paving the way for possible failure in their talks this week. The US said it was prepared to leave Montreal without any agreement on agriculture rather than paper over the cracks.

"No deal is better than a bad deal," said Mr Alan Holmer, Deputy US Trade Representative.

Mr Willy de Clercq, EC Trade Commissioner said, "We are still disappointed by the US *attitude" but*, he added, the Uruguay talks would continue whatever happened in Montreal.

The deadlock over Europe's rejection of US *demands for a* long-term elimination of all trade-distorting farm subsidies dominated bilateral meetings over the weekend.

Mr de Clercq said a lack of consensus on agriculture in Montreal was "likely to block all the other discussions.

"However, with the necessary political will there is still a possibility to get an agreement."

Mr Holmer said the main trading powers were keen to press on with talks but US officials said Mr Richard Lyng, US Agriculture Secretary, due to arrive in Montreal late last night, was unlikely to bring any change in the US position.

The farm issue was further complicated when some of the *12 EC states* reacted strongly to the final report to the trade ministers by Mr Aart de Zeeuw, the Dutchman who has chaired the farm negotiations for the past two years.

The report, formulated after last-minute efforts by senior officials in Geneva last week to reconcile the US and EC positions, said ministers should decide in Montreal on the ultimate goal, thus putting the *option of an end to subsidies* unequivocally on the table.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	15	59	Dubrovnik	R	11	52	Malta	T	13	55	Rhodes	F	18	64
Algiers	F	17	63	Edinburgh	R	07	45	Manchester	C	08	46	Rio de J'o	F	28	82
Amsterdam	C	09	48	Faro	S	18	64	Manila	F	31	88	Rome	F	17	63
Athens	C	18	64	Florence	C	12	54	Melbourne	C	21	70	Salzburg	C	05	41
Bahrain	F	24	75	Frankfurt	F	04	39	Mexico City	F	21	70	San Francisco	F	20	68
Bangkok	F	31	88	Funchal	C	20	68	Miami	C	22	71	Seoul	C	05	41
Barcelona	S	14	57	Geneva	R	06	43	Milan	C	08	46	Singapore	R	29	84
Beirut	F	20	68	Gibraltar	S	18	64	Montreal	C	05	41	Stockholm	C	01	34
Belfast	R	07	45	Glasgow	C	07	45	Moscow	C	-6	21	Strasbourg	R	09	48
Belgrade	C	02	36	Guernsey	R	13	55	Munich	R	03	37	Sydney	F	29	84
Berlin	C	02	36	Helsinki	F	-3	27	Nairobi	C	23	73	Taipei	R	22	72
Biarritz	C	15	59	H. Kong	S	22	72	Naples	S	14	57	Tangier	S	16	61
Bombay	-	—	—	Innsbruck	C	03	37	Nassau	C	25	77	Tel Aviv	F	23	73
Bordeaux	C	14	57	Inverness	R	07	45	New Delhi	F	24	75	Tenerife	C	21	70
Brussels	R	09	48	Islamabad	F	22	72	New York	F	12	54	Tokyo	C	13	55
Budapest	F	08	47	Istanbul	F	15	59	Nice	F	13	55	Toronto	F	09	48
B. Aires	F	37	99	Jakarta	C	32	90	Nicosia	F	20	68	Tunis	S	19	66
Cairo	F	24	75	Jersey	D	13	55	Oporto	C	15	59	Valencia	F	17	63
Cape Town	S	21	70	Jo'burg	F	26	79	Oslo	C	-6	21	Venice	S	10	50
Caracas	C	24	75	Lima	F	22	72	Paris	R	10	50	Vienna	F	09	48
Casablanca	S	18	64	Lisbon	C	16	61	Peking	F	04	39	Warsaw	C	-3	27
Chicago	F	12	54	London	R	10	50	Prague	R	03	37	Washington	S	04	39
Cologne	R	08	46	Los Angeles	F	24	75	Reykjavik	S	-1	30	Zurich	R	06	43
Copenhagen	R	03	37	Luxembourg	R	10	50								
Corfu	T	16	61	Madrid	F	13	55								
Dallas	S	06	43	Majorca	F	17	63								
Dublin	S	08	46	Malaga	S	18	64								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Soviets plan big rise in direct foreign trading

By Quentin Peel in Moscow

A RADICAL extension of the number of Soviet enterprises, including co-operatives and joint ventures, allowed to import and export directly on their own account, has been approved by the ruling Soviet *Communist Party Politburo.*

The new rules mean that any enterprise whose products "are capable of competing on foreign markets" will be allowed to conduct its own importing and exporting, without having to pass through the bureacracy of a Soviet Ministry.

The move is an important new effort to boost the Soviet external trade *sector*, by *removing bureaucratic* control. However it will still mean that Soviet enterprises have to earn whatever foreign currency they hope to spend.

The Politburo has also promised new measures to boost joint ventures with foreign enterprises – almost certainly meaning a long-mooted relaxation in the limits on foreign ownership and control of such ventures. The expectation is that foreign partners would be allowed to own up to 80 per cent, instead of the current limit of 49 per cent.

"It is envisaged to broaden the rights of basic economic units in the sphere of foreign economic relations," the statement *said*, "implying that all state enterprises, plants, organisations, production cooperatives and other social organisations, the products of which are capable of competing on foreign markets, can conduct import-export operations on the principles of foreign currency self-supporting and self-financing."

The decision – confirming a proposal by the Soviet Council of Ministers – greatly extends the current state of trade liberalisation, which allows some 200 Soviet ministries and *enterprises to conduct their* own trade ties.

When liberalisation was first introduced, in 1987, 23 ministries and 80 *state* enterprises were allowed to trade on their own account. In January this year, the Ministry of Foreign Trade, which had traditionally controlled 90 per cent of Soviet trade turnover, was disbanded.

The requirement for enterprises to provide their own foreign currency still puts a very real restriction on rapid growth of the sector, however. The Soviet export potential for manufactured goods remains very limited, with quality standards generally poor, and Soviet enterprises will only be able to import as much as they can pay for with their own exports.

Another potential problem is that individual Soviet enterprises no longer enjoy any state guarantee of foreign exchange cover when importing, thus presenting the foreign supplier with a risk of non-payment.

"It is further envisaged to take extra measures to guarantee more favourable conditions for the establishment and activities of joint ventures organised on the territory of the USSR," the Politburo statement said.

In spite of enormous Soviet enthusiasm for the idea, potential foreign partners have shown caution about being dragged into a permanent relationship with a Soviet state enterprise in this way.

The major complaint of potential partners has not been the restriction on ownership, but rather the continuing problems over guaranteed remittance of profits in foreign currency and in ensuring reliable supplies of raw materials from Soviet sources.

● The Politburo also announced its approval of a Soviet government proposal to sell state flats to Soviet citizens to help finance a major housebuilding programme. The plan would cover flats in state housing quarters and unoccupied flats in houses undergoing renovation.

Soviet troops tighten grip

Continued from Page 1

sent by Moscow earlier to report on the troubles would recommend an easing of Azerbaijani control over Nagorno-Karabakh. It was unclear whether the new commission will supersede the earlier one.

Armenian nationalists were expected to discuss the latest Kremlin stance at a mass meeting yesterday in the holy city of Echmiadzin, 19 miles from Yerevan, which the authorities authorized.

The refugee problem is now becoming acute. It is estimated that as many as 80,000 members of each community are fleeing from one republic to the other to avoid attacks. The armed forces face a major problem trying to stop the columns of refugees meeting each other on the road and clashing.

No more deaths have been officially reported since the total of 28 over the past two weeks published four days ago. However, a pro-Azeri group in Ankara, the Turkish capital, said that at least 75 Azeris had been killed

THE LEX COLUMN

Asset values in the balance

Amid the tug-of-war going on over the future of the British balance sheet, two questions present themselves: whether the balance sheet is going to survive as a serious source of financial information, and whether it deserves to. There is no question that it is in terrible shape. On the asset side, inflation has ruined the valuation of tangibles, and merger mania has made the absence of intangibles grossly misleading; on the other side, shareholders' funds are systematically understated, and debt is frequently misrepresented by off-balance sheet jiggery-pokery.

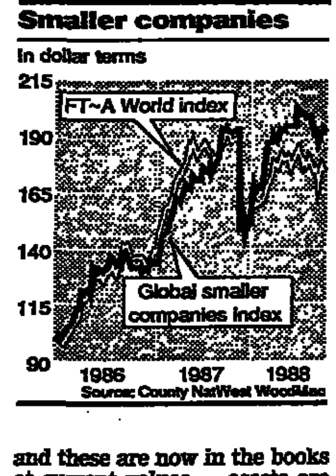
But the financial markets, it appears, still care about balance sheet ratios, as can be deduced from recent efforts by companies to restate their published numbers in a more favourable light. The two main approaches might be termed the RHM method, which seeks to place an asset value on brands, and the Saatchi method, which – as copied last week by Hanson – consists of including all previously purchased goodwill for the purpose of calculating borrowing limits. The figure thus derived may not be included on the official balance sheet, but it still seeks to express debt in terms of asset values rather than earnings or cash flow. As to balance sheet ratios, those who find Saatchi's borrowings unnerving in relation to shareholders' funds of £65m can have their attention directed to the alternative version at the back of the book, showing shareholders' funds of over £1bn.

But the question remains of whether the market is right to care twopence these days about such ratios as balance sheet gearing and return on equity, rather than interest cover and return on sales. Indeed, those last two ratios being derived from the profit and loss account, perhaps they ought to be junked as well; the decay in tangible asset values, for instance, means that the depreciation charge is merely an arbitrary proportion of a random number, thereby distorting the profit figure. This leads us to the extreme position of the US investment banks, for whom the chief criterion for lending – and, ultimately, for portfolio investment as well – is cash flow.

There is no reason, after all, why the criteria of the investor and the banker should not converge. Ten years ago, UKcompanies did not even produce cash flow statements, and bankers, like investors, looked to asset backing. But land and buildings perhaps excepted –

Smaller companies

In dollar terms



Source: County NatWest WoodMac

and these are now in the books at current values – assets are only worth the income they produce; and indeed, there is something inherently odd about the RHM notion of deriving an asset value for a brand by putting a multiple on its earnings, and treating the result as if it were fresh information. On this argument, the decay of the balance sheet is not merely the effect of inflation, merger accounting and so forth. It would have happened anyway, *as the result of the* bleak realisation that cash flow is all that matters, and that all things must be measured in terms of their cash potential.

At this point, the fundamental analyst starts to twitch slightly. The investment business is nothing if not fashion-conscious, and all this has a modish feel to it. From the viewpoint of long-term invest*ment, the snag about cash flow* is that it fluctuates wildly, whereas asset values are more stable. Again, the trouble about letting the balance sheet go hang is that it has the effect of withholding information from the shareholder. Rather than companies hiding their charms and then revealing them with a flourish when a bid comes along, the idea surely is to have a fully-educated market price in the first place.

The problem is one of agreed methodology. The UK accounting profession is belatedly moving to tackle off-balance sheet financing, but has made no contribution at all to the valuation of intangibles; indeed, some of the committees set up to look at the subject have reportedly yet to meet. Land and buildings can be revalued because the methodology has been agreed between accountants and surveyors; but there is no such system for valuing brands, and it would be up to the accounting profession to provide one.

Provided, that is, that there is genuine demand for the information from users and producers of accounts. The fact that companies are apparently queuing up to follow the example of both RHM and Saatchi plainly implies that there is. The danger is that while the profession dawdles, the various *ad hoc* approaches become an inextricable part of companies' financial history. In other words, the UK balance sheet risks not death, but fragmentation; every man his own rules, and no-one to hold the ring.

Small companies

What is true of the main Anglo-Saxon markets is often enough completely untrue of the rest of the world. But when it comes to the habits of small companies – specifically, their persistent tendency to beat their larger rivals in terms of market performance – the phenomenon seems to be universal.

For years investors have had a sneaking suspicion that there were disproportionate amounts of money to be made from smaller companies globally, and not just in the US and UK. Recent research from County NatWest WoodMac and Morgan Grenfell Investment Services shows that they were right, and in a big way. Their global smaller companies index has outperformed the FT-A World Index in dollars by nearly 11 per cent since the end of 1985. The catch is that data from before then do not exist, and extrapolating a line which is only three years long is a dangerous business.

In the UK, where Hoare Govett's smaller companies index goes back 33 years, the weight of probability seems to favour continued outperformance: small companies have bettered the All-Share in 27 of those years, generally beating the market in times of recession as well as strong growth. But generalising from the UK experience may also be dangerous. *In 1986, for example, the* County index underperformed the World index, largely because of the poor performance of Japanese companies; during the same period UK companies continued to beat the market. And while County argues that half the global outperformance can be explained by the coincidental concentration of smaller companies in industries that have done well recently, this is not true of the UK.

Nobody really knows why small companies outperform; but they have done so in so many countries, and over such long periods, that it must be an odds-on bet they will continue to do so.

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Putting up with a eurobond headache

The stream of convertible, puttable eurobonds which UK companies issued with abandon in the bull market days of 1987 are proving something of a headache in the current bearish conditions — as retailer Next has learned the hard way. Its profits will be significantly lower this year, partly due to the cost of paying interest on eurobonds that investors have decided not to convert to stock. Page 22

Ling's long and winding road

It has been a long and winding road for Philip Ling (left): 1970s whizkid in the service of Oliver Jessel; leader of what, in 1985, was the largest ever UK management buy-out; architect of an unprecedented — and spectacularly unsuccessful — management buy-in bid for Simon Engineering. Ling has now assembled a management team of long-time colleagues, bought engineering companies which have had as many corporate homes as he has, and created at Haden MacLellan Holdings a mini-conglomerate to watch. And he's still only 42. Page 26

Unitech keys in to global market

Unitech, one of the leading UK distributors of electronic components, now has global ambitions. It wants to switch away from distribution and concentrate on manufacturing, creating a multinational group spread equally in Europe, the US and Japan. At the end of the process, it will hardly be recognisable as the same company. Hugo Dixon reports. Page 27

The sword that concentrates the executive mind

Are hostile takeovers a force for good or bad? According to some analysts, at least half of successful bids prove to be failures. Yet there is evidence that the threat of a bid can improve corporate performance. So hostile takeovers might seem most effective as a Damoclean sword which never fails. Guy de Jonquières examines the evidence. Page 44

Market Statistics

Companies in this section

Next kisses goodbye to the glamour stock image

Maggie Urry on the British retailer's problems

The British Press and the City of London relish creating legends and then knocking them down again, as Mr George Davies, chairman of the retailing group Next, is finding to his cost.

At the end of last week he was dubbed "the one-time retailing superstar," thus joining a lengthening list of high street personalities who have fallen from grace.

Yet for the past four years he has been one of the most charismatic and successful figures in the sector, transforming the dowdy J Hepworth menswear chain with into an innovative and design-conscious group with interests spanning men's and women's fashion, jewellery, furniture and mail order.

His offence was to tell shareholders on Thursday that this year's profits would be "significantly" lower than last year's £92.4m pre-tax, and there would only be modest growth next year. Analysts are now looking for £70m pre-tax in the year to end January.

Its the kind of story that sells newspapers – working class boy makes good, gains wealth and fame, and then loses it all again. But Mr Davies is determined that this will not be the end of him. "I'm not a fallen star," he says, "I'm still confident I will be there," he adds, looking tired, but not downcast.

Nevertheless, the setback raises a major question: to what extent is Next simply a victim of the current competitive retailing climate, causing gloom all along the High Street, or has it expanded too rapidly for its own good, notably with the £325m acquisition of Combined English Stores last year?

Mr Davies was quick on Thursday to blame outside problems for the expected shortfall in this year's profits. The sale of two significant businesses just before Christmas means that their most profitable period is lost to Next. The postal strike in September hit the mail order business. Those two difficulites will cost the group up to £20m in lost profits, Mr Davies reckons. But there is more to Next's difficulties than this.

Take, for example, home shopping, which Next entered with its acquisition of the mail order group Grattan. Last January it set about breaking the mail order mould with the launch of the Next Directory, a glitzy catalogue backed by a novel local distribution system for ordered goods.

The postal strike apart, Mr Davies admits that the Next Directory would not have reached his best hopes anyway. There was a learning curve to ascend. Much of what works in Grattan, a traditional home shopping business, could not be translated to the more up-market customers of the Directory.

More glamorous times: George Davies and models at the January launch of the Next Directory.

Next is now refining the Directory system and in the next season there should be significant cost savings, without any major change in what the customers see.

On the high street, the core profits centre of the group, Next is perhaps a victim of its ambitious expansion. There are now Nexts in every high street – and some argue too many of them. But Mr Davies is sure that "the Next formula is still bloody strong."

By segmenting the market and targetting different chains at different groups, he believes, Next can continue to expand. Mr Davies is still expecting this year's percentage profits growth from the core businesses to be in the high teens at least.

Next's success has attracted copies. And although total UK clothing sales are still rising, the numbers of shops serving the market has risen even faster, especially in women's fashions . Clothing has become the subject of intense competition and price cutting. Next has not followed, but it cannot avoid suffering from the actions of others.

Analysts now generally agree that Next also overextended itself with the purchase of Combined English Stores, comprising a number of different chains, each of which needed management time to control. Mr Davies admits, "the lesson I've learnt this year is you must stick to the markets you know." Converting some CES stores to Next formats was beginning to cost a lot of money: by late September Next's gearing had risen to 125 per cent.

In the last couple of months Next has sold four of the CES businesses, Zales, a jewellery chain, Salisburys, a handbag, luggage and costume jewellery business, Allens, a chemist, and Eurocamp, a holiday company. These have raised £220.9m but have not come in time to stop a sharp rise in the interest charge this year.

Does Mr Davies regret buying CES? "Funnily enough, no I don't," he replies. He argues that Next is left with two good businesses – Biba, a West German retail chain which Mr Davies sees as his route into Europe, and Mercado, a well-managed, profitable, carpet business – plus around 360,000 sq ft of high street retail space, for a little over £100m.

Next's new-found emphasis on the balance sheet has brought net debt down to £22.9m (excluding convertible bond issues which total £147.9m) against net tangible assets of just over £400m. "The Next business is much fitter today and better controlled," Mr Davies argues.

Will Next recover and George Davies with it? "I still believe our strategies, despite this year, are right," he says. Certainly, the hype of the past few years does not seem to have gone to his head. The Liverpudlian accent is intact, and a self-deprecating sense of humour: "The first time I was to go on the Terry Wogan show," he recounts, "I was just about to set off when the 'phone rang. They said don't come today – we've got Nigel Mansell (the racing driver) after all."

Reagan's debts are beginning to fall due

By Anthony Harris in Washington

The markets ended the week in a considerable state of fright about the US economy. The strong employment numbers, and new talk of a bill of up to $100bn to sort out the affairs of the home loan banks look forbidding enough; at the begining of a new Administration apparently in a deadlock with the legislature, they look worse.

In terms of economics, these fears look overdone. The staffs of the members banks of the Federal Reserve System are in a much better position to judge the economy than the statisticians in the Department of Labour, and they believe that growth is moderating; dreary sales reports from the stores tell the same story. Most of the employment growth, after all, in in part-time work for women. Exports from industry are still growing strongly, as was shown in the quarterly figures, and farm export earnings are up although the volume is down. *This still looks like a soft landing.*

The budget is much more of a political than an economic problem. The Gramm-Rudman target for deficit reduction is well under 1 per cent of GDP, and could be *met with some quite trivial tax* increases. Even the failure of the savings and loans is a political rather than a fiscal embarrassment, as I will try to show. Politically, though, these are indeed acute problems, and the embarrassment is palpable.

One result is that there is no rush by businessmen to volunteer for the top jobs in the new Administration; it looks an uncomfortable alternative to earning real money.

Meanwhile, the President-elect is trying to be all things to all men, green with the conservationists, a liberal when he entertains Mr Jesse Jackson, tough on military matters. He is open and yet intensely secretive – in short, a continuing enigma. Meanwhile his staff have admitted that they are getting a bit depressed. All this courtship of his opponents may serve the cause of good manners, but it does not alter the numbers, and they are not promising.

The fact is that despite the strength of the economy, official estimates show that the federal deficit is going up, rather than falling as the flexible freeze plan requires. This is partly because of the cost of debt service is higher than was assumed in the Reagan budget plans, as everyone knew it would be, but the *detailed figures* will no doubt show some other discrepancies when they emerge in January.

Meanwhile, the Republicans are in a great rage because the General Accounting Office, the US equivalent of the UK's Auditor General, recently published a *paper drawing the obvious conlusion* - that the budget problem cannot be solved simply by growth. The GAO is accused of playing politics, but nobody charged Mr Paul Volcker with this offence when he said exactly the same thing last week. Facts, as President Reagan splendidly remarked, are stupid things.

The budget problems are familiar, and will no doubt become a great deal more so as the year wears on. What is clear at this stage is that the most acute problems concern defence; for example, will the Stealth bomber, which is priced at some $500m a copy, ever be built? General Scowcroft, Mr Bush's security adviser, is said to bring a first-class strategic mind to such problems, but few people seem to feel the same confidence in Senator Tower, still on a one-man short list for Secretary of Defence, which is discouraging. There are some talented people in the Bush team, but not necessarily in the *right jobs.*

Fortunately the savings and loans mess will not, it seems, be left entirely to the politicians who did so much to create it. A firm lead has been taken by a self-confessed bureaucrat, Mr William Seidman, head of the Federal Deposit Insurance Corporation. He is no ordinary bureaucrat, it is true; he has earned the kind of awed respect which Mr Volcker used to enjoy. Mr Alan Greenspan has the respect without the awe.

The S&Ls ought to be a horrid warning to Mr Bush, because their ruin was caused by trying to solve their problems through growth. The initial difficulty was caused by the Government, and the ruin was encouraged by Congress; as Mr Seidman puts it, there is enough blame to go round for everyone. There are in fact two problems; an interest rate problem, and one of what it is fashionable to call moral hazard – more straightforwardly, racketeering.

The potted history is simple. The movement used to have a kind of protective tariff, called Regulation Q, which capped the interest which banks were allowed to pay on savings. When inflation left the ceiling looking like a basement floor, and the *money-market funds* opened a huge loophole in the regulation, it was abolished; but the movement, which had operated fixed rate loans at quite narrow spreads, was not compensated, and found itself paying more for funds that it received from mortgage-holders.

Congress's answer was to free the S&Ls to seek now business to cover the losses on the old. Deregulation should have been met with beefed-up supervision, as Mr Seidman insisted in some bruising fights; the FDIC is an independent body, and he got its way. Unfortunately the Federal Home Loans Bank had to submit its operating budget to an Administration of doctrinaires, who regarded supervision as bureacratic tyrrany.

The result was a kind of open season for the criminally stupid and the criminally inclined, happy in the knowledge that the small savers who financed their schemes would be paid off by the Government if anything went wrong. *In community terms,* this was victimless crime; but the US Treasury was always at risk, and now it is bill-paying time. The scale of the bankruptcy is growing at some 15 per cent annually, and delay is increasingly expensive.

This looks like a monstrous new charge on the budget, and in accounting terms it is, since the US Government has counted the "profit" reported by the deposit insurance scheme as revenue, and should logically count losses as expenditure. Economically, though, this is nonsense. The movement did its bit to push the whole US economy into debt through excessive lending, but that was in the past. The money exists now as savings accounts. To try to claw it back through taxation would be quite unwarranted. It is as if the Government had uncovered a huge banknote-forging operation which has passed off up to $100bn of undetectable banknotes. The national debt should be adjusted off-Budget, and that is clearly what is intended.

Indeed even an off-Budget liquidation will be quite deflationary, because the US Government will pay a much lower rate of interest than failed mortgage banks have to offer to attract funds. Faces will rightly be worn red when the problem is fully aired; but the US has enough real problems on its agenda without turning some very silly politics into an economic disaster.

Economic Notebook

The mirage of the reserve Yen

By Ian Rodger in Tokyo

THE RECENT enthusiasm of the Japanese authorities for expanding the international role of the yen should probably be taken with a large pinch of salt.

They may like the idea of the yen playing a bigger role as a reserve currency and being used more in world trade and capital markets. But neither they nor others in Japan and elsewhere with the power to influence things appear to be taking the moves that would make this happen.

Indeed, recent figures suggest that the international use of the yen may actually be declining. Yen holdings of central banks as a per cent of their total foreign exchange holdings dropped from 7.8 per cent in 1985 to 7 per cent last year.

The proportion of Japanese exports denominated in yen dropped from 35.9 per cent in 1985 to 33.4 per cent last year, and Bank of Japan officials admit that most of yen denominated exports are inter-company transfers within Japanese companies anyway.

On the other hand, the yen's use in capital markets has been growing rapidly, rising from 7.7 per cent of all international bond issues in 1985 to 14.8 per cent last year, according to figures compiled by Morgan Guaranty, the US investment house.

However, the vast majority of these issues is made by Japanese issuers and placed in Japan. And the proceeds of the remainder tend to be swapped into dollars very quickly.

Mr Robert Aliber of the University of Chicago pointed out at a Tokyo conference last month that there were two prerequisites for an expansion of the yen's international role, an increase in demand for it and a rise in its availability.

Mr Aliber suggested that neither of the two main potential sources of increased demand for yen, the industrialising Asian countries (Nies) and the US, were yet showing signs of wanting more.

The Nies, he said, were content to remain detached from the yen as long as possible because it enabled their manufacturers to improve their competitiveness against Japanese companies in third markets. Similarly, the Japanese enthusiasm for investing in the US still seemed to be greater than the US need to borrow abroad. Thus, the US was still able to finance its deficits in dollars, rather than in yen.

Trade surplus

As for supply, Mr Aliber pointed out that the emergence of the dollar as an international reserve currency coincided with periods of persistent trade deficits in the US. The US need to raise capital coincided with foreign interest in acquiring the dollar.

However, Japan was running huge trade and current account surpluses, so it was very difficult for foreigners to get their hands on yen. In common with most economists, he expected that the surpluses would persist for a considerable time.

Even if one or more of these conditions does change, it is disingenous of the Japanese authorities to say that they welcome an increase in the international use of the yen, especially by other central banks.

Central banks like to hold a large portion of their reserves in very liquid form, and the US treasury bill remains by far the favoured instrument. If the Japanese really wanted to expand the use of the yen as a reserve currency, they would create a liquid market in short-term Japanese government securities.

But the Japanese Ministry of Finance has been dragging its feet for years on demands from the US and others that it create such a market. The reason is simple: at the moment, the MoF is able to get all the money it needs at low cost in a narrow treasury bill market.

It makes issues at artificially low interest rates, obliges the Bank of Japan to underwite them and then use them in its open market operations. Foreigners are discouraged from participating by the presence of a withholding tax (from which foreign central banks can claim exemption).

There is one aspect of the yen's international use where there may be some potential for progress, its use in pricing internationally traded commodities. Sterling lingers on as the valuation system for copper, the dollar for oil and most other commodities. Perhaps the Japanese producers of semiconductors, those commodities of the electronic age, should consider pricing their goods in yen.

If they did, one can imagine howls of protest from the West at Japan Inc's "cartel-like" behaviour. In fact, it probably will not happen, precisely because one of these ferociously competitive companies would be bound to break ranks and go back to selling in dollars.

Also, it is convenient for the Japanese producers to price their goods in dollars. That way, they can change local prices in foreign markets when it suits them. If they priced in yen, and the yen kept rising, they would be forced to raise their local prices at regular intervals.

THIS WEEK

THE OUTLOOK for UK consumer spending may provide a focus for financial markets this week, with analysts hoping for clear signs that recent rapid growth is abating.

Department of Trade and Industry final figures for retail sales volumes are published today and the Confederation of British Industry/Financial Times distributive survey on Thursday.

Last month the two sources gave conflicting signals. The official figures showed an unexpectedly steep rise of 1.9 per cent in provisional figures for October – but this could be revised in the final figures.

The CBI/FT survey pointed to a marked slowdown in the pace of growth. This week's survey will give a guide to sales trends in November and expectations for December.

Mr Nigel Lawson, the British Chancellor, answers Treasury questions in the House of Commons on Thursday. Financial markets will be listening for comments on the current account deficit, inflation, sterling and interest rate trends.

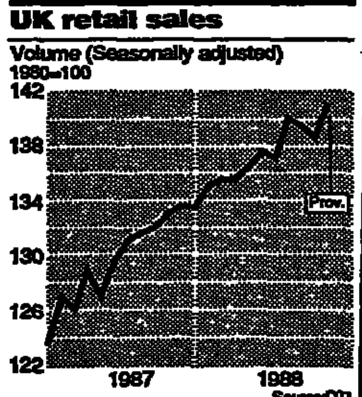
West German trade figures for October are published today. A small fall is expected in the trade surplus to around DM10bn from DM11.3bn in September. The current account surplus for the month, however, is expected to be higher than September's DM 6.1bn.

In France Mr Jacques de Larosiere, Governor of the Bank of France, will on Tuesday set out French monetary policy and money supply targets for next year.

M2, which includes notes and coins, sight deposits and savings accounts and the only officially targeted aggregate, undershot the target band of 4 to 6 per cent for the first half of this year. Currently it is within the band, growing by 4.2 per cent in the twelve months to September.

Japanese gross national product figures for the three months to September are published on Tuesday. The previous quarter saw a slight fall but this followed a steep rise in the first three months of this year. Analysts expect strong growth to resume in the third quarter.

UK retail sales



In the US there is a scarcity of economic statistics likely to receive much attention.

Other events and statistics this week include:

Today: US – domestic and imported car sales in November. Productivity and costs in the three months to September. UK – credit business figures for October.

Tomorrow: UK – Mr Lawson addresses conference on world debt at the House of Commons.

Wednesday: US – consumer installment credit in October (the market consensus, compiled by MMS International, is for a rise of $3bn). UK – Department of Employment publishes Employment Gazette. Advance energy statistics for October.

Thursday: Australian employment figures for November.

Friday: US – wholesale trade in October. UK – Mr Peter Lilley, economic secretary to the Treasury, addresses Confederation of British Industry ECU conference. Construction output in three months to September.

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Spain cashes in on event risks

SPAIN LOOKS like becoming over the next week the latest borrower to benefit from US investor worries about the risks of investing in corporate paper in a world of huge takeovers which can turn investment-grade bonds into junk at a stroke.

In a filing with the US Securities & Exchange Commission – the kingdom is believed to be the first new sovereign borrower to start reporting to the SEC in some years – Spain has launched a $1bn programme to issue medium-term notes in the US. While the programme has been under consideration since the spring, "event risk" worries seem certain to to deliver an unexpected bonus to the borrower, judging in part from the recent increased demand for its commercial paper in the US.

The country these days has not much need for external funds except to refinance its maturing debt, but that it is doing in part through a variety of programmes which gives it continuous access to dollar-denominated funds across the maturity spectrum in both the US and the Euromarkets.

According to Mr Eduardo Aguiler, deputy director-general for external borrowing at the Ministry of Finance, the US programme – arranged by Merrill Lynch and including First Boston, Goldman Sachs and Morgan Stanley as dealers – could have $250m outstanding by the year-end and this figure could build towards $400m to $500m by March or April. Spain, rated AA by Standard & Poor's and Aa2 by Moody's, has some $300m in dollar-denominated paper outstanding under its Euro-MTN programme, some $200m under a Eurocommercial paper programme and $250m under a US CP programme.

The US market delivers two main advantages over its Euro-counterpart. Its greater size has eased investor worries about market liquidity and dealer performance which is still restricting issuance in the still-evolving Euro-MTN market. Furthermore, while maturities in Euro-MTNs are difficult to extend beyond three years, it is not uncommon for issues of up to 30 years to be made through the US market.

Back in Europe, Spain also has some Ecu180m outstanding in medium-term notes, compared with precisely zero earlier in the year. Mr Aguiler says the whole sector has received a fillip from the Bank of England's move to issue Treasury bills denominated in the composite currency. With the main buyers central banks and institutions like the European Investment Bank, Spain has been achieving 21 to 23 basis points below London interbank bid rates on its Ecu paper.

The expected entrance of the peseta into the Ecu in September next year has also led the ministry to encourage other Spanish borrowers to use the currency. Indeed, Chase Investment Bank is currently arranging two Ecu-denominated term loans for Spanish borrowers.

Endesa, the electrical utility, is borrowing Ecu180m over six years, with a five-year grace period at a 15 basis points margin for three years and 17½ for the rest. Acesa, the privately-held motorway concessionaire, is borrowing Ecu80m over seven years with a three-year grace period and a margin of 17½ basis points.

Citicorp has now syndicated a $100m three-year revolving credit for Omnicorp, the merchant banking arm of Omni Holding, the principal investment vehicle of Mr Werner Rey, the Swiss entrepreneur. It carries a 62½ basis point margin and a 25 basis point commitment fee.

Stephen Fidler

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	2,839.2	8.4	23.0	11,756.2
Prev	1,330.4	210.4	725.0	9,188.0
Other	5,305.3	2.6	503.1	2,224.0
Prev	3,314.7	0.0	77.1	1,243.5
Secondary Market				
US$	12,831.2	877.6	6,384.6	6,221.8
Prev	13,530.0	1,142.1	5,946.2	5,424.8
Other	16,831.5	983.0	3,353.9	20,084.5
Prev	17,808.9	971.3	4,335.7	21,797.6

	Cedel	Euroclear	Total
US$	12,515.2	28,426.8	40,942.0
Prev	9,307.4	28,189.5	37,496.9
Other	23,361.6	25,926.3	49,287.9
Prev	22,328.0	27,220.8	49,548.8

Week to December 1, 1988 Source: AIBD

INTERNATIONAL BONDS

Next, a lesson on the convertible puttable trap

NEXT, the UK retailing group, has learned the hard way that many of the convertible puttable Eurobonds that UK companies issued with abandon in the bull market days of 1987 are not really equity, but debt after all.

Last week, Mr George Davies, Next's chairman, said the company's profits would be significantly lower this year, partly due to the cost of building up a reserve to pay interest on Eurobonds that investors appear increasingly unlikely to convert into stock.

The conventional wisdom in the debt markets is that convertibles are bought by the same people who buy shares and are judged on their merits as equity products. But by offering investors a put option, Next tailored its convertibles to a group which typically prefers debt securities. In the process, the company cut its initial borrowing costs but may end up paying the price in the long run.

Next's £100m 5¾ per cent convertible puttable Eurobonds, lead managed in mid-1987 by Credit Suisse First Boston, seemed to offer the best of all possible worlds. CSFB, whose officials declined on Friday to discuss the product, propelled itself to the top of the league tables in convertible debt as the concept was greeted with enthusiasm.

CSFB's renowned placement capacity with Swiss investors was another key factor in its success. After all, among the objectives of Next and other such borrowers was a desire to expand their investor base outside the UK, capturing those accounts which did not want to buy bearer securities.

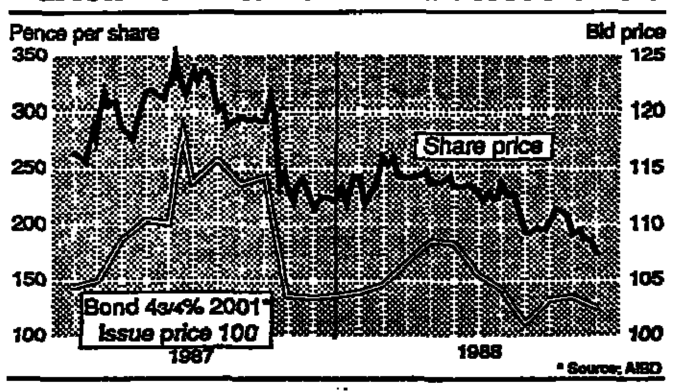
Significantly, though, it was SG Warburg which devised a twist which has allowed a spate of new issues since the crash, and may rescue several other issuers of pre-crash bonds.

Next's problem, which is hardly unique, is this. The 5¾ per cent bonds carried an unusually high conversion premium of 152 per cent, but protected the risk-averse with a put option effective in 1992. The put option allowed the investor to sell the bonds to Next at 129 per cent of face value, reaping an annualised yield of 11.74 per cent. In the expectation that the put would never be exercised, Next never set aside reserves to cover the potential extra interest payments.

Then came the stock market crash, and Next's fortunes have never been the same. Its shares last week were trading around 136p against a conversion price on the bonds of 430p. With that arithmetic, no investor would dream of converting to equity.

Investors who hold to maturity will reap an annual return of 11.74 per cent, better than that on gilts. As of Friday, the 10 per cent Treasury stock due 1993 offered a yield of around 11 per cent. Bond investors would have demanded a greater spread over gilts than that implies, but using the put is a vastly more attractive option than converting.

Burton - convertible bond versus share



Analysts at Société Générale Strauss Turnbull estimate that an investor who sold Next shares to buy the convertibles at the time of launch would have seen his investment drop by 5 per cent in value. But the investor who held on to the shares would have had a 70 per cent drop in the value of his holdings.

Next's situation is hardly unique. A long and respectable list of UK companies tapped the convertible market with similar securities in the heady pre-crash days of 1987, including Burton, Ratners, Storehouse and Argyll.

Warburg has devised an addendum to the indenture of Burton's 4¾ per cent puttable convertible bonds that effectively encourages the bond holder to delay putting them back to Burton for an additional five years. That way, the stock has a better chance to appreciate to a level where investors find it sensible to convert to equity rather than to demand interest payments. Furthermore, it eases pressure on Burton to set aside reserves to cover the accrued, but unpaid, interest on the bonds each year.

It also eliminates the covenant which effectively punishes any investor who had not converted or tendered bonds. This covenant allowed the issuer to call the bonds at par one day after the put expired.

This so-called "rolling put" option has also been written into the indentures of several convertible puttable bonds lead managed earlier this year by Warburg.

Certainly, the companies hit hardest by their puttable convertibles are those which issued at pre-crash prices. Some bonds issued since then have actually fared quite well.

Mr Marc Litvack of Strauss Turnbull points out that a number of issuers chose to avoid the put option altogether, structuring their bonds with a lower conversion premium and coupons about 200 basis points higher. However, these instruments are much more clearly equity and have shown it in their trading prices.

Norma Cohen

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nissho Iwai Corp.‡◆	300	1992	4	4½	100	Nomura Int.	4.500
NKK Corp.‡◆	400	1992	4	4⅛	100	Yamaichi Int. (Eur)	4.125
NKK Corp.‡◆	300	1992	4	4⅛	100	Singapore Nomura	4.125
Toyota Motor Finance◆	200	1991	2	9½	101	Nomura Int.	8.932
Lavoro Bank Overseas◆	150	1995	7	10	101¾	Shearson L'man Hutton	9.645
Bk of Tokyo (Curacao)◆	100	1996	7	10	101.675	Bk of Tokyo Cap.Mkts	9.680
Sumitomo Rubber Ind.‡	100	1992	4	(4¾)	100	Daiwa Europe	★
Credit National◆	160	1992	4	9½	101¼	LTCB Int.	9.113
Yukong Ltd.‡◆	30	1996	8	(d)	100	Baring Brothers	-
IBJ Int. Ltd.(e)◆	50	1998	10	9½	102	IBJ (Asia)	9.186
Nippon Zeon Co.‡	100	1992	4	(4¾)	100	Nomura Int.	★
Seiren Co.★★§◆	60	1993	-	½	100	Bank Leu	0.500
Aichi Sharyo Co.★★§◆	50	1994	-	½	100	Handelsbank NatWest	0.500
Japan Development Bk◆	200	1997	-	4¾	101⅝	UBS	4.504
Shochiku Co.★★◆	50	1993	-	4⅝	100¼	UBS	4.568
Gotabanken★★◆	32	1993	-	5	100¼	Nordfinanz-Bank	4.942
Daito Seiki Co.★★§	60	1994	-	(½)	100	Banca del Gottardo	★
Province Manitoba★★◆	100	1993	-	4⅜	100½	UBS	4.262
CANADIAN DOLLARS							
Deutsche Bank Berlin◆	50	1993	5	9½	100	Deutsche Bk Cap.Mkts	9.500
AUSTRALIAN DOLLARS							
WestLB Int. (Lux)◆	75	1992	3	14⅛	101½	WestLB	13.606
Tasmanian Public Fin.◆	50	1995	7	14	101⅝	Deutsche Bk Cap.Mkts	13.625
Toronto-Dominion Bk◆	75	1991	2	14⅝	101.70	Salomon Brothers	13.596
DG Bank Luxembourg◆	50	1992	3	14	101	DG Bank	13.572
NEW ZEALAND DOLLARS							
Cr.Lyonnais Australia◆	50	1992	3	14¼	101¾	Hambros Bank	13.503
D-MARKS							
ECSC★★◆	242½	1992	3.2	5⅛	100⅞	Bayerische Vereinsbk	4.817
Commerzbank O'seas‡◆	500	1993	5	(b)	100	Commerzbank	-
Helaba Luxembourg◆	75	1994	5	5½	101	Hessische Landesbank	5.267
Osaka Gas Co.◆	130	1994	5.2	5½	101¼	WestLB	5.214
Sparekassen Bikuben◆	125	1995	7	6⅛	100	Commerzbank	6.125
DG Bank Luxembourg★★◆	150	1993	4.1	5½	100½	DG Bank	5.357
Storebrand Finans★★◆	50	1991	3	5½	100½	Commerzbank	5.315
Lavoro Bank Overseas◆	130	1994	5	5½	101½	Swiss Bank Corp.	5.152
SWISS FRANCS							
Meitec Corp.★★§◆	50	1993	-	½	100	Royal Trust Bk(Switz)	0.500
STERLING							
EIB(c)◆	100	2009	21	9½	95.586	BZW	10.257
ECUs							
BNP◆	100	1994	5	7⅞	101⅞	Deutsche Bk Cap.Mkts	7.413
Cr. Local de France(f)◆	50	1992	3¼	7⅝	101	CCF	7.295
Eurofima◆	100	1994	5	7⅝	101½	CSFB	7.257
Cr'anstalt Bkverein(g)◆	60	1993	5	7¾	101⅝	Mitsubishi Fin.Int.	7.350
LIRE							
Olivetti Int.◆	100bn	1993	4	11⅞	101⅜	Credito Italiano	11.426
DANISH KRONER							
Genoss'liche ZB-Vienna◆	300	1994	5¼	9¼	101¼	Sparekassen SDS	8.923
LUXEMBOURG FRANCS							
d'Ieteren Trading BV★★◆	300	1993	5	7½	100½	Credit Europeen	7.377
IMI Int.★★◆	300	1994	5	7½	100¼	Bqe Paribas (Lux)	7.438
Nouvelles Galeries★★◆	300	1993	5	7⅝	100¼	Sogenal	7.583
Provinsbanken★★◆	300	1993	5	7½	100¼	Kredietbank Int.	7.438
Banque Worms★★◆	300	1993	5	7½	100¼	Kredietbank Int.	7.438
YEN							
State Bank of NSW(a)◆	15bn	1994	5¼	8	101⅞	Daiwa Europe	7.541
Sallie Mae◆	20bn	1993	5	4⅞	101¾	IBJ Int.	4.477
Bulgarian For.Tr.Bk★★◆	10bn	1996	8½	5.7	100	Bank of Tokyo	5.781

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ‡Floating rate note. ◆Final terms. a) Bull/bear issue launched in two equal tranches of Y7½bn each tranche. Redemption linked to Jap.Govt.bond futures. b) Coupon pays 6m Libor. c) Purchase fund. d) Launched in H.Kong. Coupon 10bp over 6m Libor first 5 years, 12½bp remainder. e) Additional $50m on tap. f) Fungible with Ecu150m launched in June. g) Fungible with existing Ecu100m issue. Note: Yields are calculated on AIBD basis.

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This announcement appears as a matter of record only.

New Issue — 28th September, 1988

£200,000,000

ALLIANCE + LEICESTER

Alliance & Leicester Building Society

Floating Rate Notes due September 1993

Issue Price 100 per cent.

Union Bank of Switzerland (Securities) Limited

Baring Brothers & Co., Limited — Kleinwort Benson Limited

Morgan Stanley International — S. G. Warburg Securities

Saudi International Bank (AL-BANK AL-SAUDI AL-ALAMI LIMITED) — Bankers Trust International Limited

CIBC Limited — Clive Discount Company Limited

County NatWest Limited — Credit Suisse First Boston Limited

Gerrard & National Limited — Hambros Bank Limited

Kidder, Peabody International Limited — Nomura International Limited

Shearson Lehman Hutton International — TSB England & Wales plc

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This announcement appears as a matter of record only.

New Issue — 23rd November, 1988

Can. $100,000,000

Province of New Brunswick
(Canada)

10½ per cent. Notes due 1998

Issue Price 101⅜ per cent.

Union Bank of Switzerland (Securities) Limited

Wood Gundy Inc. — ScotiaMcLeod Inc.

RBC Dominion Securities International — BNP Capital Markets Limited

Bank of Montreal Capital Markets Limited — Banque Bruxelles Lambert S.A.

Banque Internationale à Luxembourg S.A. — Bayerische Landesbank Girozentrale

Credit Suisse First Boston Limited — Goldman Sachs International Limited

IBJ International Limited — Manufacturers Hanover Limited

Mitsubishi Finance International Limited — The Nikko Securities Co., (Europe) Ltd.

Salomon Brothers International Limited

This announcement appears as a matter of record only.

New Issue — 18th August, 1988

ECU 75,000,000

PIRELLI

Pirelli Financial Services Company N.V.
(Incorporated with limited liability in the Netherlands Antilles)

8 per cent. Guaranteed Notes due 1993

unconditionally and irrevocably guaranteed by

Pirelli Société Générale S.A.
(Incorporated with limited liability in Switzerland)

Issue Price 101¾ per cent.

Union Bank of Switzerland (Securities) Limited

Bankers Trust International Limited — Banque Bruxelles Lambert S.A.

Crédit Lyonnais — Deutsche Bank Capital Markets Limited

Istituto Bancario San Paolo di Torino

Algemene Bank Nederland N.V. — Amsterdam-Rotterdam Bank N.V.

BHF-BANK — Credit Suisse First Boston Limited

Dresdner Bank Aktiengesellschaft — Generale Bank

Goldman Sachs International Corp. — The Long-Term Credit Bank of Japan (Europe) S.A.

Merrill Lynch International & Co. — Mitsubishi Finance International Limited

Morgan Stanley International — Nomura International Limited

Sanwa International Limited — Sarasin International Securities Limited

SBCI Swiss Bank Corporation Investment banking — Swiss Volksbank

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This announcement appears as a matter of record only.

New Issue — 29th November, 1988

Union Bank of Switzerland

ECU 150,000,000

Union Bank of Switzerland Finance N.V.

7½ per cent. Guaranteed Notes due 1993

unconditionally guaranteed by

Union Bank of Switzerland

Issue Price 101⅞ per cent.

Union Bank of Switzerland (Securities) Limited

Bank Brussel Lambert N.V. — Banque Paribas Capital Markets Limited

Commerzbank Aktiengesellschaft — Crédit Commercial de France

Crédit Lyonnais — Credit Suisse First Boston Limited

Dresdner Bank Aktiengesellschaft — Generale Bank

Goldman Sachs International Limited — Kredietbank International Group

Leu Securities Limited — Merrill Lynch International & Co.

Mitsubishi Finance International Limited — Nomura International Limited

Salomon Brothers International Limited — SBCI Swiss Bank Corporation Investment banking

Shearson Lehman Hutton International — Société Générale

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Triumph of faith over experience

CONSIDERING the magnitude of the shock delivered by the November employment figures, the bond market's drop of only 1¼ points on Friday was a triumph of faith over experience. The message of the figures appeared unmistakable – and was confirmed this morning by the report from the National Association of Purchasing Managers of "another impressive improvement in the rate of growth in November."

The US economy is still growing at an unsustainably rapid pace of at least 3½ per cent or more. As Mr Alan Greenspan, chairman of the Federal Reserve Board, has repeatedly made clear, that pace is unsustainable if the US is to continue reducing its current account deficit and if inflation is to be kept below 5 per cent.

Yet such is the blind faith at present in the Fed that few investors seem to be asking whether deep in his heart Mr Greenspan considers that high inflation may be a price worth paying for several more years of rapid economic growth.

Indeed, the markets at present are willing to judge the Fed entirely by its words, not its actions. Mr Greenspan has said repeatedly that he will not tolerate accelerating inflation. *Ergo* bond market investors seem to believe that inflation is bound to settle at 5 per cent or less and hence that bond yields of more than 9 per cent must be a good, if not an irresistible, bargain.

But sooner or later, Mr Greenspan will have to do something – not just to say something – to prove his anti-inflationary mettle. And as the latest economic figures are gradually absorbed by the market, increasing numbers of investors are likely to conclude that he already faces that test and may be about to fail.

Those who believed, as we did just after the crash last October, that the US economy might move spontaneously towards a major slowdown, without a further tightening of monetary or fiscal policy, have clearly been confounded. If anything, the "natural" forces of demand, as illustrated by the steady expansion of employment since the lull of mid-summer, seem to be pushing for an acceleration of the growth rate. Services are still thriving, manufacturing is

Alan Greenspan: has said repeatedly he will not tolerate accelerating inflation

again expanding and even the construction sector, the one clearly identifiable area of weakness since early 1987, appears to be enjoying a substantial turnround.

Indeed, for every piece of special pleading that bullish analysts could offer to put a tolerable gloss on the 463,000 surge in November's payroll employment, the latest economic news seemed to provide a far more plausible rebuttal. If it was argued, for example, that 100,000 of the new jobs were simply a statistical illusion, arising from the downward revision in the October figures, the same revision only underlined the acceleration in the growth trend during the autumn.

The fact that factory jobs grew as strongly, in relative terms, as service employment might have been an encouraging factor, at least for the US balance of payments. But then, the purchasing managers' report points out that, while overall new order rates "were solid," orders for exports in November were well down from October and "significantly lower" than the average for the first seven months of 1988.

Meanwhile, the 55,000-job gain in construction suggested that this most inflationary, and also in theory most interest-sensitive, part of the economy was going stronger than at any time for almost two years.

To drive the same point in even more clearly, the Commerce Department revealed on Friday a few minutes after the employment figures that new home sales in October had jumped to their highest level since February 1987. Despite more than a year of forecasts that tightening monetary policy would lead to a big, and potentially recession-inducing, *decline in housing*, it now seems almost certain that home sales in 1988 will be substantially ahead of 1987.

Meanwhile, house prices, which fell into a much-discussed trough in spring and summer, partly perhaps because of Black Monday, seemed to be back on an inflationary trajectory – the median new house sold in October for 8.8 per cent more *than in October 1987*.

The importance of housing cannot be over-stated. As Mr Nigel Lawson, the British Chancellor, has made all too clear in another context, housing is not only one of the main transmission mechanisms between financial and consumer inflation, it is also the primary link in the disinflationary mechanism that begins with tighter monetary policy.

If US interest rates are not high enough even to slow housebuilding and eliminate housing inflation, the question arises: why should we think they are high enough to tame less interest-sensitive components of inflation like service wages, or slow the growth rate of the whole economy by one percentage point or more?

Certainly it is hard to believe that anything like a credit squeeze is being suffered by the corporate sector - not in a week when two separate groups have offered $25bn to buy RJR Nabisco, in each case *offering to borrow $20bn* from the credit markets and the banks.

To summarise, if the statistics to be released over the next few weeks bear out the message of the November employment figures, it will not be long before Mr Greenspan faces his long-awaited test against economic overheating.

And unless last Friday's figures turn out to be some weird aberration – a notion which is not encouraged by the strong growth confirmed in today's purchasing managers' report – a mere half-point rise in discount rate may not be remotely sufficient to prove Mr Greenspan the inflation fighter actually means what he says.

Anatole Kaletsky

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.60	8.38	8.25	8.82	6.27
Three-month Treasury bills	8.30	8.04	7.46	8.27	5.40
Six-month Treasury bills	8.71	8.13	7.63	8.52	5.74
Three-month prime CDs	9.35	9.20	8.46	8.58	6.77
30-day Commercial Paper	9.25	8.40	8.17	7.62	6.57
90-day Commercial Paper	9.15	8.48	8.37	9.23	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	97$\frac{13}{32}$	-$\frac{11}{32}$	9.14	9.16	8.84
20-year Treasury	101⅞	-¼	9.15	9.28	8.88
30-year Treasury	98$\frac{5}{32}$	-1½	9.16	9.17	8.90

Source: Salomon Bros (estimates).

NRI TOKYO BOND INDEX

December 1985 = 100	1/12/88	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	148.15	4.47	147.73	143.10	144.07
Government Bonds	149.60	4.10	149.17	143.21	144.69
Municipal Bonds	*149.57*	4.85	*149.13*	144.74	145.74
Govt.-guaranteed Bonds	150.53	4.90	150.12	146.33	147.20
Bank Debentures	141.15	4.37	140.73	137.44	138.05
Corporate Bonds	146.90	5.43	146.52	144.11	143.93
Yen-denom. Foreign Bonds	150.11	6.25	149.92	147.46	144.82
Government 10-year†	4.77	–	4.82	5.33	4.95

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Lawson fails to calm rate nerves

IF THE past six months have not been bad enough, Mr Nigel Lawson, the Chancellor, faces what is potentially his most nerve-wracking period in office for some time.

His decision to raise base rate to 13 per cent just over a week ago has failed to convince UK markets that he will not be forced to raise them again. For the gilts market, the risks are all on the up-side this side of next year's March Budget, as the yield graph shows.

The risks are not that 13 per cent base rates will be insufficient to slow the economy – there are already dark mutterings about "overkill" – but that it will take a long time before the increasingly unreliable and discredited official figures show it.

One does not need a long memory to remember what happened late last year and early this year when M0, retail sales and industrial production figures all provided some comfort for those who thought the aftermath of the stock market crash would produce lower growth this year.

All had an important influence on the Treasury's thinking at the time, especially in *terms of monetary policy and* to a lesser extent the Budget judgment. When Mr Lawson says that if he were allowed to rerun history he would have had higher interest rates, it is by reference to, what is in retrospect, a misreading of these indicators.

The current position is arguably much more finely balanced than it was at the beginning of the year. As one official noted last week: "The danger is that we'll shut the whole economy down and have it all unravelling on us."

That might sound a trifle alarmist; however, consider what might lie ahead for the authorities and the markets, given the leads and lags in the statistics.

It is possible that the Chancellor will face the position in January/February next year when he has seen retail sales exhibiting little or no growth while at the same time the current account is still pointing towards buoyant imports.

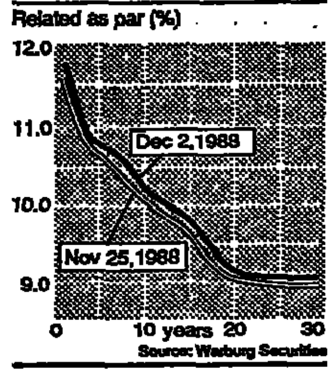
In this scenario, Mr Lawson may not be able to respond to the signs that the domestic economy has turned until he is confident that there has also been an improvement in the current account. A relaxation of policy too early may lead to an unwelcome fall in sterling.

Uncertainty was heightened by the rise in base rates to 13 per cent. In late August, when rates were raised to 12 per cent, the market judged that that level would be sufficient to cool the economy for a soft landing. The Autumn State*ment underwrote that view,* although there were concerns expressed that it was over-optimistic.

In August the market accepted the Treasury/Bank view that it would take time before signs of a slowdown materialised. November/December was judged the earliest such signs could realistically be expected to emerge.

UK gilts yields

Related as par (%)



Source: Warburg Securities

The information that has emerged has either been ambiguous or disappointing, with the exception of the housing market where prices appear to have stabilised (in the south-east at least) and the rate of growth in forward commitments appears to have moderated.

In this light it appears as if M0 and the other monetary indicators are once again assuming a greater importance in domestic policy thinking.

They always have been important but Mr Lawson underlined their current significance when he told the Treasury committee that these indicators are regarded as the most reliable guide to domestic economic activity.

There was little joy then on Thursday when flash forecasts of M0 growth in November pointed to the maintenance of underlying growth in the region of 7¾ per cent. Allowing for the perverse effects of the postal strike in September, M0 has been expanding at this rate since the summer.

November was a five-week banking week and it was clear by the end of the fourth week (a day before the trade figures) that there had been little or no moderation in the rate of growth of M0. Clearly, the trade figures were the catalyst for the move to 13 per cent (with the associated need to underpin the pound uppermost in policymaker's minds), but M0 was also telling the authorities that the slowdown people were looking for by November had not arrived.

The growth in M0 will moderate as people hold less cash relative to interest-bearing deposits. These have gained in attraction because of higher interest rates. The question is when, and on that no one can be sure.

● Mr Lawson said before the Treasury committee that the fall in long yields was a conse*quence of the Bank's buying in* of gilts, not the object of policy. He added, however: "It is desirable to give the corporate sector the opportunity to borrow at a significantly lower rate of interest than bank overdraft" – thereby muddying the distinction.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

A.B.N. 8¾ 91	150	97¾	0	9.80
AETNA LIFE & CAS 7¾ 16	200	98¾	-⅛	8.42
AMFC OAL.FIN. 11⅞ 94	100	101	+⅛	11.47
A.I.D.C. 11 92	75	100	0	10.96
ALBERTA PROVINCE 7⅞ 97	750	94⅜	-⅛	9.84
ALCOA AUSTRALIA 11 92	50	100⅜	-⅛	10.81
AUSTRALIA 11⅞ 90	100	102⅜	0	9.75
AUSTRALIA 11⅞ 00	100	107	0	10.16
AUSTRIA 7⅞ 97	200	98⅜	+⅛	8.72
AUSTRIA 8⅞ 90	250	98⅜	-⅛	9.60
BANK OF TOKYO 8⅞ 96	100	98⅜	+⅛	9.07
[illegible]				
QUEENSLAND GOVT 11⅞ 98	100	101⅞	+⅛	9.84
WALSTON PURINA 11⅞ 95	150	104⅜	-⅛	10.74
REYNOLDS R.J. 10⅞ 95	100	93⅜	-1⅛	12.04
RICHARDSON-VICKS 11⅞ 95	125	103⅜	0	10.81
ROCKWELL INT 9⅞ 95	200	98⅞	0	9.88
S.A.S. 10⅞ 95	150	101⅞	+⅛	9.94
SNCF 7⅞ 94	175	90⅜	+⅛	9.71
SASKATCHEWAN 7 91	125	94⅜	-⅛	9.60
SASKATCHEWAN 8⅞ 91	150	98⅞	+⅛	9.38
SASKATCHEWAN 11⅞ 98	100	102	+⅛	9.62
SASKATCHEWAN 15 92	150	115⅞	-⅛	9.64
[illegible]				
SOUTHWEST AIRLINES 6¼ 98	35	79¼	+⅛	62.90
TEXACO CAPITAL 11¼ 94	500	105	+¼	11.35

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
ALLIED-SIGNAL 6¼ 93	20.0BN	104¼	+¼	5.51
AVON CAPITAL 6¼ 91	26.0BN	101	0	6.37
BARCLAYS O/S INV 6 96	40.0BN	105	+¼	5.20
B.F.C.E. 5¾ 96	20.0BN	104¼	+¼	5.06
CANADIAN PACIFIC 6¼ 96	10.0BN	107½	+¼	5.45
[illegible]				

CONVERTIBLE BONDS				
[illegible]				
GIBRALTAR SAVINGS 7½ 06	100	38	-2½	—
GRACE (W.R) 6¼ 02	150	81¼	+½	31.57
GRAND MET 6¼ 02	100	84½	-1	27.07
INTL PAPER 5¾ 02	200	83¾	+¼	29.07
LTCB 1¾ 02	200	118¼	-¾	4.39
MCA 5½ 02	300	81¼	+¼	26.34
MITSUBISHI BK 1¾ 02	300	137¼	-5	-1.00
NEWMONT MINING 7 01	100	102¼	+¼	14.36
NIPPON ELECTRIC 2⅞ 00	150	304½	+9½	1.70
NISHI NIPPON 2⅞ 03	70	115	-2	-0.69
ROCKEFELLER CENTER 0 00	952	31¼	+¼	-45.80
SANWA BANK 1¼ 02	300	112¾	-2	-3.33

WARRANTS				
[illegible]				
DEN NORSKE CREDIT 8 94	02/03/90	1	-1	7.96
DEN NORSKE CREDIT 8¼ 96	08/08/89	1	-1	8.22
DENMARK 12¼ 92	31/01/90	55	-15	10.57
GEN ELEC CRED 9½ 92 B	17/12/92	8	-1¼	9.25
GMAC 8¼ 95 B	11/02/91	13½	-2½	8.45
HEINZ H.J. 7½ 96	01/10/90	—	—	—
NORDIC INV BANK 7¾ 96	30/10/91	5	-½	7.78
ROYAL BK CANADA	28/01/90	60½	-2	9.95
SBC FINANCE 10¼ 90	11/01/90	10	+1¼	9.22

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on DECEMBER 2

SIB relents on Eurobond pricing

By Norma Cohen

THE UK Securities and Investments Board has abandoned efforts to harden rules controlling price manipulation of new Eurobond issues. It is the latest sign of a change in approach at the regulatory body since Mr David Walker succeeded Sir Kenneth Berrill as chairman.

New rules published last week by the the Association of International Bond Dealers, the designated investment exchange for Eurobond trading, concentrate on how trading of new issues is reported, rather than on how firms should behave towards each other and towards their customers.

At issue is the question of stabilisation, the process of maintaining an appropriate market price for a new issue. Considered by some to be little more than market manipulation, the practice is legal under the Financial Services Act if conducted in accordance with prescribed rules on an approved exchange.

Earlier expectations that the SIB would insist on significantly more restrictive rules on new Eurobond issues led to complaints from outside the UK that an international market such as that in Eurobonds should not be governed by English law.

Although 70 per cent of all Eurobond business is conducted in London, most of the AIBD's 800 members are located outside the UK.

Mr Walker, a non-executive director of the Bank of England, succeeded Sir Kenneth in June. Sir Kenneth had been widely criticised for introducing a complicated and legalistic rulebook.

Two weeks ago, Mr Walker issued a significantly revised version of the SIB rulebook which outlined broad principles to be followed, rather than spelling out specific modes of behaviour.

Although the new rules for Eurobonds standardise key dealing terms and definitions, they stop short of codifying stabilisation guidelines written by the International Primary Markets Association, a trade organisation of Eurobond underwriting houses.

Bringing IPMA's guidelines into the AIBD rules would have made more extreme attempts at manipulating the price of new Eurobonds illegal.

Such practices include "ramping" and "dumping" – the act of artificially creating buyers or sellers of an issue and then reaping the benefits. The AIBD has more loosely worded rules forbidding bad market practices.

Also, the IPMA guidelines specify when the stabilisation period is deemed to end and what information lead managers are required to give to other syndicate members.

KKR expects $6bn Nabisco asset sales

By Our Financial Staff

KOHLBERG KRAVIS Roberts, the US leveraged buy-out specialist which last week won the $25bn battle for RJR Nabisco, has said it expects the sale of $6bn in various RJR food assets over the next 12 to 24 months.

But in a joint letter with Mr Ross Johnson, president and chief executive of the US tobacco and foods group — and leader of a rival offer for the company – KKR said it was under no pressure to make immediate divestitures.

KKR added it had no specific plans about asset sales. The letter, to RJR employees, said: "We can assure you that there will be no mass liquidations of our assets, or any mass lay-off of employees.

"First and foremost, it has always been a hallmark of KKR that the operating management of companies in which it makes investments continues to operate those companies. That hallmark will continue at RJR Nabisco."

The letter did not specify Mr Johnson's future role with RJR Nabisco.

● Walker Street Associates, a US limited partnership, has taken an 8 per cent stake in National Intergroup, the struggling US pharmaceutical distribution, aluminium and steel group, and said it may propose a leveraged buy-out of the company or seek control.

Walker, controlled by Mr Steven M. Mizel of New York, requested a meeting with management and is awaiting a response, according to a filing with the US Securities & Exchange Commission.

● Pillsbury, the US foods and restaurants group facing a hostile takeover bid from Grand Metroplitan of the UK, has signed a definitive agreement to sell its grain merchandising division to ConAgra, the US milling group.

The division is believed to be worth less than $100m and would be sold by GrandMet if it wins its battle for Pillsbury. The US group also said it sold Ashford Creameries, which markets frozen desserts and ice cream, to Hillsdown Holdings of the UK. Terms of the two agreements were not disclosed.

● Henley Manufacturing said a special committee of its board received an offer from New Hampshire Oak, to buy all shares not held by Henley Group for $80 per share cash.

New Hampshire's owners are Mr Michael Dingman and Mr Paul Montrone, respectively chief executive and president of Henley Group. Henley Manufacturing was spun off last year from Henley Group.

● Zenith Electronics, the US consumer electronics producer, said Brookhurst Partners had agreed to terminate its solicitation of consents from shareholders in its effort to oust current management and force sale of the company.

Zenith and Brookhurst, in a joint announcement, quoted Mr Herbert Abelow, Brookhurst principal partner, as saying: "The continuing efforts of Zenith's management and board have persuaded the company's shareholders that Zenith is pursuing programmes that will maximise shareholder value."

Stet share swaps outlined

STET, THE Italian state telecommunications holding company, said a share swap scheme has been proposed for the planned incorporation of its main operating units that was announced last March, writes Our Financial Staff.

The proposal, made by a panel of independent experts, calls for shareholders of Sip, the telephone company, to receive four Stet shares for every five Sip shares held.

Holders of Italcable, the overseas carrier, would receive three Stet shares for each Italcable share held. Stet said the swap ratio was valid for both ordinary and savings shares.

Stet, which is part of the state industrial holding Istituto per la Ricostruzione Industriale (IRI), said a final decision on the share exchange would be made by the boards of the companies involved.

Stet, Sip and Italcable are traded on the Milan Stock Exchange.

Chief for bonds council

THE Eurobond market's two-year-old Council of Reporting Dealers (CRD) has elected Mr Jerome Goldstein its chairman, replacing Mr Thomas Beacham, who has held the post since the CRD was established, writes Norma Cohen.

The CRD is a committee of the Association of International Bond Dealers (AIBD). It has 120 Eurobond houses as members, all of which make markets in Eurobonds.

Mr Goldstein, managing director in charge of bond trading at Sanwa International, is also one of a three-member panel of trouble shooters which arbitrates disputes between AIBD members. He is probably best known for orchestrating efforts to maintain liquidity in the market in perpetual and dated floating rate notes when those markets collapsed in late 1986 and 1987.

Mr Beacham has been a managing director at Wood Gundy.

Taiwan SE records biggest one-day fall

By Our Financial Staff

SHARE PRICES in Taiwan plunged on Saturday in the biggest one-day loss in the Taiwan Stock Exchange's history, amid renewed nervousness over a new capital gains tax on share trading.

The exchange's weighted index lost 300.90 points to close at 6,450.33, as analysts said investors withdrew because of uncertainty over the market trend.

"With no fresh news boosting buying interest, investors switched their attention to the coming reimposition of the capital gains tax, which they regard as a blow to booming business," said Mr Teddy Yang, an analyst with Foremost Securities.

The Government announced on September 24 it would reimpose a capital gains tax on share profits from January 1989. The announcement prompted a 19-day slide in share prices in October.

Traders said the banking sector led the market lower on Saturday. Chang Hwa Commercial Bank plunged T$31 to T$735 (US$26), First Commercial Bank dropped T$27 to T$718 and Hua Nan Commercial Bank plummeted T$32 to T$738. Losers outpaced gainers by 142 to 11, with three stocks ending unchanged.

Mr Yang predicted that the index will seesaw between 6,000 points and 7,000 points next week. It had reached an all-time peak of 8,789.78 immediately before the government September announcement.

MAN's global profits 24% up

By Our Financial Staff

MAN, the West German heavy engineering, automotive and construction group, said its worldwide group net income rose 24 per cent to DM202m ($117m) in the year to June 30, from DM163m in fiscal 1987.

Worldwide sales were flat at DM14.96bn against DM15.0bn in the previous fiscal year. MAN has switched to reporting worldwide group earnings from domestic group results.

Strong final quarter lifts Bank of Nova Scotia

By David Owen in Toronto

BANK OF Nova Scotia, Canada's fourth largest chartered bank, has reported substantially improved fourth-quarter earnings due to solid growth in its core businesses.

In all, income for the period totalled C$139m (US$118m) or 72 cents a share, compared with C$119m or 69 cents a year ago. Profits for the year ended October 31 were a record C$506.6m or C$2.74 a share, against a loss of C$213.7m or C$1.45 in fiscal 1987.

The year-ago figure includes a large C$692.9m special provision relating to an increase in reserves on loans to troubled Third World countries. Excluding this charge, 1987 net income was C$479.2m or C$2.78.

The decline in per share earnings is explained by the issue of 14.1m new shares in the acquisition of ScotiaMcLeod, the bank's wholly-owned securities arm.

ScotiaMcLeod, whose results since March 29 are included in the earnings figures, reported a loss of C$10.2m as a result of reduced investor activity. The unit was also a major factor behind a 13.2 per cent year-on-year increase in non-interest expenses to C$1.4bn.

During the year, the bank raised its provision on loans to the designated group of 38 developing countries by a further C$416.4m to 45 per cent of exposure.

Total assets in 1988 rose to C$74.7bn (including C$3.3bn associated with ScotiaMcLeod), from C$71.4bn a year ago.

● The 70 member firms of the Toronto Stock Exchange incurred combined losses of C$48.9m in the third quarter, reflecting the continuing dearth of retail business in the Canadian securities industry. In the year-earlier period, the same firms had racked up shared profits of C$31.3m.

The figures brought combined losses in the year to date to C$47.2m, versus a profit of C$193.7m in 1987. In the first nine months of this year, the average value of stock trading in Toronto was C$5.6bn a month – a decline of 35 per cent from C$8.7bn a month.

Hudson's Bay cuts losses as stores side improves

By Robert Gibbens in Montreal

THE HUDSON'S Bay Company is gradually turning round its department store business across Canada, through restructuring and modernisation, and its real estate development subsidiary is doing much better.

The Bay's loss before extraordinary items for the first nine months ended October 31 was C$27.4m (US$23.2m) or C$1.57 a share, down from a deficit of C$136.7m or C$5.32 a share a year earlier, on revenues of C$3.1bn against C$3.3bn after extraordinary items. The final loss was C$54.4m against a loss of C$153m a year earlier.

The third quarter showed a net profit before extraordinary items of C$2m against a loss of C$94m a year earlier on revenues of C$1.1bn, unchanged.

The Bay said the better trend should continue in the fourth quarter with special strengths in the Zellers mass merchandising division and also Markborough Properties.

The Bay and Simpsons, the two department store chain subsidiaries hit hardest by specialty stores this decade, should do better on an operating basis.

The Bay's interest costs in the first nine months were down C$5m to C$148m.

Seagate to axe 1,000 jobs in US

By Our Financial Staff

SEAGATE TECHNOLOGY, the California-based concern which is the world's largest maker of hard disk drives for small computers, is to cut its domestic workforce by 20 per cent or 1,000 jobs, due to "the industry imbalance between production capacity and market demand."

Mr Alan Shugart, chairman, said the action was necessary "to improve both our immediate financial position and future growth potential." The announcement comes two weeks after Seagate said it was reducing its Singapore workforce by 800.

Seagate said it had no estimates of the cost of the staff reductions, and added that it did not see the need for any further retrenchment.

Mr James Stone, a Merrill Lynch analyst, said the cuts resulted from Seagate's decision to increase capacity in the past few years in expectation of a greater market for its products.

Seagate had profits of $77.3m or $1.54 a share in the year ended June, on sales of $1.26bn. Mr Stone expects it to report a loss of 85 cents per share for its current year, before recovering in 1989-90.

Grace to sell mine stake

By Kenneth Gooding, Mining Correspondent

W.R. GRACE, the US chemicals group, is to sell its 50 per cent interest in the Four Corners phosphate mine in Florida for over $100m cash, in another move rationalising the US phosphate industry.

The buyer is IMC Fertiliser Group, part of International Minerals & Chemical, the world's largest private enterprise producer of basic fertiliser raw materials and owner of the other half of the mine.

Operations at Four Corners have been suspended since 1986 because of unfavourable fertiliser market conditions but are scheduled to resume early next year, when the deal should be completed. Grace was holder of the largest reserves of Florida phosphate but has since been quitting.

UK COMPANY NEWS

British Steel offer 3.3 times subscribed

By Philip Coggan

THE UK public offer of shares in British Steel was 3.3 times subscribed, with around 650,000 investors, employees and pensioners applying for about 1.5bn shares.

The success of the issue, which had appeared to be endangered by last week's depressed stockmarket, may push the shares to a healthy premium when dealings begin at 2.30 p.m. today.

Both clawbacks were triggered and therefore there may be unsatisfied overseas and UK institutional demand for the shares. The premium is expected to be between 5p and 10p on the 60p first instalment price.

As expected, the Government has scaled down the applications instead of holding a ballot. Private investors will therefore know how many shares they will be receiving and will be able to deal before allotment letters are sent out on December 12.

The scaling down has been skewed to favour the smaller investor. All those who applied for 1,000 shares or less - which means some 500,000 people - will receive their full allocations.

BRITISH STEEL SHARE ALLOCATION

Number applied for	Number allocated
Up to 1,000	in full
1,500	1,200
2,000	1,500
2,500	1,800
3,000	2,100
3,500	2,400
4,000	2,600
4,500	2,800
5,000	3,000
6,000	3,500
7,000	4,000
8,000	4,500
9,000	5,000
10,000	5,000
15,000	6,250
20,000	7,500
25,000 or more	30%

Following the clawbacks, some 42 per cent of the issue will go to the UK public— 33 per cent was placed with UK institutions.

Overseas investors have been allocated 25 per cent of the issue, split between the US (9.1 per cent), Japan (7.4 per cent), Europe (6.1 per cent) and Canada (2.3 per cent).

Underwriting costs for the £2.5bn offer looks set to be around £22.6m.

Clayform in £7m sale to House of Fraser

By Clare Pearson

CLAYFORM Properties, property investment and development group, is selling Schofields, its Yorkshire department store, to House of Fraser (Stores) for £6.75m cash.

Clayform, which was thwarted in a £108m bid for Stead & Simpson, shoe retailer, during the summer, said the proceeds would go towards future acquisitions.

Schofields, a family-run business, was to obtain in 1984for redevelopment the prime site in the centre of Leeds which its flagship store occupied.

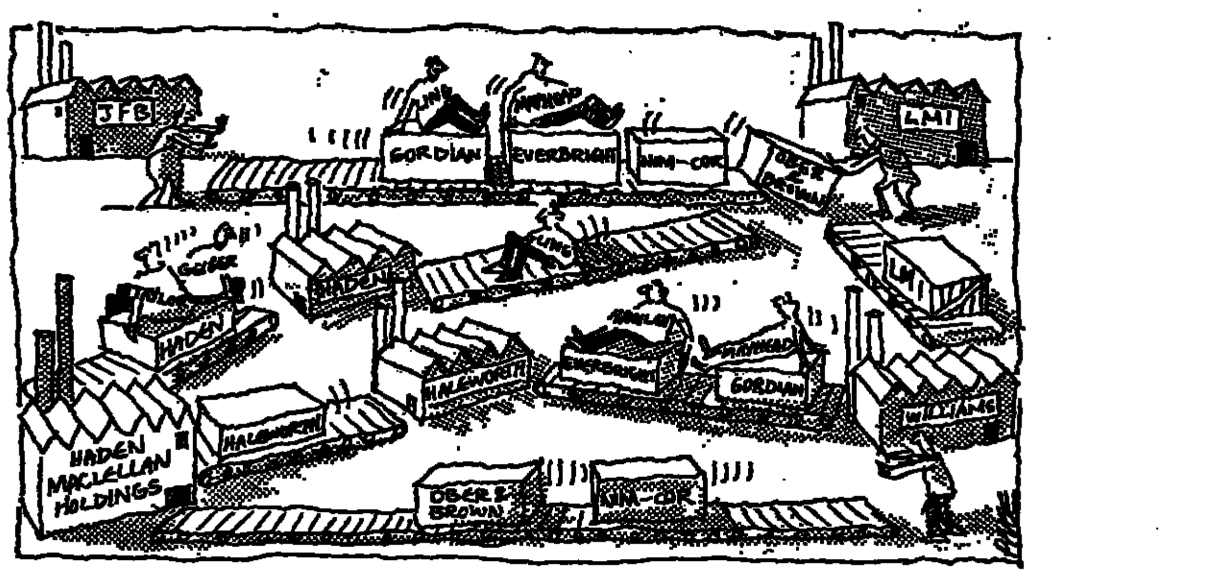
The Schofield Centre is expected to open in September next year.

FINANCIAL TIMES STOCK INDICES

	Dec. 2	Dec. 1	Nov. 30	Nov. 29	Nov. 28	Nov. 25	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.90	86.97	87.03	86.96	86.96	87.48	91.43	86.28	127.4	49.18
Fixed Interest	97.00	97.10	97.19	97.31	97.24	96.97	98.67	94.14	105.4	50.53
Ordinary	1439.7	1450.2	1458.0	1455.4	1452.9	1462.6	1514.7	1349.0	1926.2	49.4
Gold mines	178.7	179.0	178.4	181.1	179.4	175.7	312.5	162.7	734.7	43.5
FT-Act All Share	917.38	925.65	933.45	930.12	926.87	934.36	978.58	870.19	1238.57	61.92
FT-SE 100	1765.0	1778.7	1792.4	1786.9	1781.5	1794.7	1879.3	1694.5	2443.4	986.9

A long journey but the way ahead looks clear

Clay Harris reports on Philip Ling, the man in the driving seat at Haden MacLellan Holdings



IT HAS been a long and winding road for Mr Philip Ling. After years of frustration, this veteran of the rationalisation of Britain's engineering industry is at last in the driving seat of his own company, Haden MacLellan Holdings, and the highway ahead looks clear and straight.

Created through a double reverse takeover, a typically audacious Ling move, HMH had an inauspicious birth only weeks before the October 1987 crash. The jitters which followed hit hard a key part of its business: Haden, a leading supplier of automated paint lines to motor vehicle manufacturers.

Last week, however, Mr Ling said that Haden - which accounts for half of HMH's earnings — had full order books for 1989 on both continents, and added: "When you get on a roll like this, it lasts for three years."

The prospective strength of Haden enabled HMH last week to pay £28m to add six more companies to the other side of the group: a motley assortment of 17 engineering operations.

The move underlines HMH's strategy: to balance the organic growth of Haden with growth by acquisition in manufacturing and distribution. Similarly, the US and Europe (including the UK) now account for equal shares of the group's earnings.

There is no denying the diversity of the manufacturing and distribution side. It includes foundries and distributors of industrial fasteners, strapping and agricultural supplies.

The manufacturing product list is an engineering cornucopia: steel rolls, aerospace fasteners, stainless steel toilets, enamelled architectural panels, specialist cranes, expanding air shafts for winding and unwinding, actuator rings for jet engines and corrugated protective packaging materials.

Where's the synergy? Don't look for it. "We run it as a conglomerate," says Mr Ling. "We don't pretend that the companies have any relationship to each other. They're all successful in their own right."

The one common feature that all the existing HMH companies have — and the new ones should have by the end of 1989 — is an operating return on sales exceeding 10 per cent and a return on capital employed of at least 35 per cent.

Mr Rory Sweetman at Barclays de Zoete Wedd describes these businesses as a "cash machine." He notes that HMH has not only increased profits and cash flow from companies which had old-fashioned products or were low-margin component businesses, but also increased growth potential by adding finished products to their range.

At Haden, meanwhile, organic growth will come in part from new paint-line products such as an oven for curing paint on plastic components, a procedure for which heat must be held within a narrow 10-degree band.

But also central to Haden's future is a paint sludge processing system, the first of which has been installed for Chrysler in Detroit. The machine breaks down toxic sludge into non-toxic powder which is recycled as raw material for paint.

This service is worth $2m (£1.1m) a year to Chrysler, because Haden does not sell the machine, only leases and operates it with its own employees on the customer's premises. In part, this is because a customer might baulk at the price Haden would charge in an outright sale, but is willing to pay a hefty annual fee to remove one of the thorniest environmental problems facing motor manufacturers.

More important is Haden's determination to keep prying eyes and hands away from the technology. "It is a patented machine, and as far as Chrysler is concerned, it's just a magic box," says Mr Ling.

Conscious of the huge potential legal risks involved in handling toxic waste, Haden resisted, however, Chrysler's efforts to make it assume liability. "We are processing on their behalf," says Mr Ling. "They own the sludge and the powder throughout."

If both sides of HMH are running at full steam now, it makes a big change for Mr Ling, who less than two years ago appeared destined to be yet another 1970s whiz-kid with a great future behind him.

The low point of his 15-year career in industry — he is still only 42 — was reached early in 1987 with the conclusion of his £201m management buy-in bid for Simon Engineering.

Under the offer's complex structure, a highly leveraged company set up specially for the bid would have achieved a 38 per cent stake in Simon if new management - led by Mr Ling — could achieve a 60 per cent increase in its share price. The bid won the support of only 7 per cent of Simon shareholders.

The comprehensive rejection was the latest frustration in an industrial career which got off to a flying start at the age of 27 overseeing Mr Oliver Jessel's efforts to rationalise the remains of Britain's private steel sector.

After nine years as general manager of Johnson & Firth Brown, the company which survived — although heavily burdened by debt — the collapse of the rest of the Jessel empire, Mr Ling moved to London & Midlands Industrials in 1982.

But hopes, shared by colleagues Mr Clive Mayhead and Mr Mel Hawley, of developing LMI were thwarted by top executives.

So Mr Ling left in 1984 after only two years to join Haden, an engineering group which shortly afterwards found itself the target of a hostile takeover bid from Trafalgar House.

In defence, executives led by Mr Ling and Mr Art Geiger put together a management buy-out worth £55m. Although unremarkably small now, in 1985 this was the largest ever UK buy-out and all the more unusual for its success in staving off a much larger and richer bidder.

Mr Mayhead and Mr Hawley stayed on at LMI until the bitter end, an agreed takeover by Williams Holdings in 1986. By that time, Haden had sold its UK building services operations to BICC, and Mr Ling had withdrawn to a non-executive role.

He was free to team up with ex-LMI colleagues to form Haleworth, a private concern which bought from Williams 18 engineering companies, including 12 which had been part of LMI.

After the Simon episode, Mr Ling concentrated on Haleworth, re-emerging in October 1987 to inject it and Haden into P&W MacLellan, sleepy — but listed — owner of the agriculture equipment supplier Spalding.

With last week's acquisitions from Williams, Mr Ling and his colleagues have regained control over all of what used to be LMI, with the exception of garden supplies brands such as Banbury conservatories and Larch-Lap fencing. Five of the companies can trace their pedigree all the way back to JFB.

Although Haden and Haleworth were already, separately, making their way at the time, the Simon bid was a turning point for Mr Ling. He remains convinced of the merits of his case but says: "My conclusion after Simon is that it's not worth struggling with unconventional financing."

A more important change, however, is the executive team around him. In addition to Messrs Hawley, Mayhead and Geiger, the line-up is rounded off by Mr Richard Taylor, head of Haden Europe. All except one are in their 40s; all, it seems, are kindred spirits. "At the other companies, I always had to accommodate people who didn't share my style."

Investors so far have done well out of HMH. Since their post-crash debut in November last year, HMH shares have outperformed the FT-A All Share index by 100 per cent — and Simon's by 70 per cent.

After the £22m rights issue launched last week, HMH will have a market capitalisation of about £120m. And yet, on BZW's forecast pre-tax profits of £24m for 1989, the shares stand only on a prospective p/e of 7, a definite handicap for ambitions eventually to acquire a third leg for the group.

Welcome to the bear market, Mr Ling.

With a different choice of companies earlier on, might he not now be running a group the size of great bull-market creations such as Williams or Tomkins?

He claims to regret nothing. Harder times, he believes, will sort out the sheep from the goats. Industrial and financial success, says Mr Ling, will create its own reward and failure will not have the cover of a rising market.

Old enough to have learnt first hand the industrial lessons of the 1970s and early 1980s, he is young enough to apply them to whatever comes next.

هكذا من الأصل

UK COMPANY NEWS

Money presses switch from distribution

Hugo Dixon examines the strategy behind the planned restructuring at Unitech

MR PETER CURRY, chairman of Unitech, has always prided himself on his nimble-footedness. In the 26 years since he founded Unitech, he has taken it from being a holding company for start-ups in the electronics industry to one of the UK's leading distributors of electronic components.

His latest plan, which is contingent on the successful completion of Unitech's $327m agreed bid for Veeco, the world's leading supplier of high-end power supplies, involves a complete switch away from distribution and a concentration on manufacturing.

It also involves the establishment of a multinational group with its activities fairly evenly spread in the world's three main markets - Europe, the US and Japan. At the end of the process, Unitech will be hardly recognisable as the same company.

The restructuring strategy has three elements. First, Veeco, which is strong in Japan and the US but weak in Europe, will be integrated with Unitech's much smaller manufacturing businesses, which have their main focus in Europe.

Second, Unitech will dispose of its distribution businesses, which at present account for just over half of group turnover but a smaller proportion of profits. Finally, Unitech will probably sell the 20 per cent of Veeco's business which is not concerned with the manufacture of power supplies.

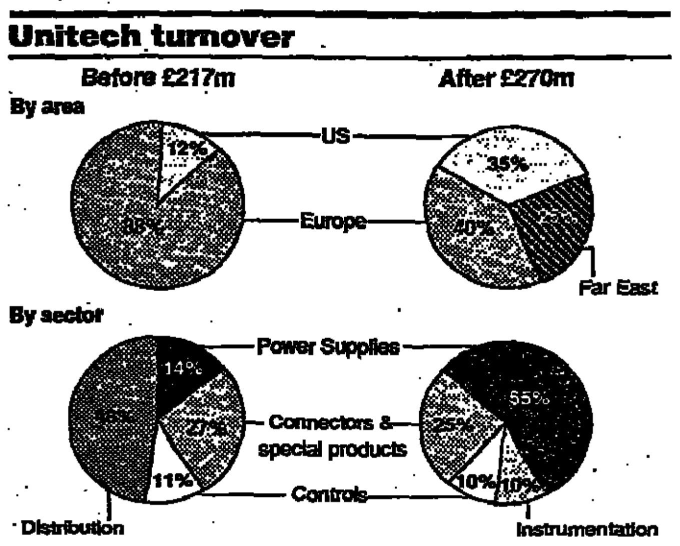
Two questions spring to mind: Why does Unitech want to become more immersed in manufacturing? And why does it feel the need to get out of distribution, which has been its mainstay for so long?

Unitech wants Veeco so badly because of the way that the electronic components business is changing. Multinational computer and telecommunications companies - which are both Unitech's and Veeco's main clients - are buying larger amounts of components from a smaller number of suppliers.

In particular, they want all of their plants around the world to be supplied with the same components so that they can streamline their manufacturing processes.

Unitech manufactures three types of component: power supplies, which convert alternating current to direct current; connectors; and control products, which monitor temperature and other variables in a piece of equipment. In none of these areas does Unitech feel it has sufficient size to address a worldwide marketplace.

The proposed acquisition of Veeco, which is due to be voted on by Unitech shareholders on December 12, will transform the position in power supplies. The idea is that Veeco's outlets in the Far East and the US will sell Unitech's products, while Unitech will do the same for Veeco's products in Europe.



(Mr Curry says that the two company's product lines are compatible, not competitive). When volumes build up to sufficient quantities, manufacturing will be transferred from factories in one continent to the others.

Mr Curry expects Veeco's strong position in Japan to be particularly valuable, as pressure for Japanese electronics companies to build factories in Europe intensifies. At present, only consumer electronics and low-end office automation products are affected, but he expects sophisticated computers and telecommunications products to be drawn into the net eventually. He intends that Unitech is ready to supply Japanese companies on a multinational basis when that occurs.

Mr Curry also anticipates savings on research and development expenditure. Unitech, he says, is already getting its activities in Europe and the US to cooperate and share R&D, so eliminating duplication. This could be done on a larger scale if Veeco's R&D activities were integrated.

So much for why Unitech believes it needs Veeco. The need to dispose of the distribution businesses at the same time is also partly related to industrial considerations. The returns from distribution have been much lower than the returns from manufacturing and having two main business lines with little synergy between them has meant the group has lacked focus. "There has been some confusion about whether Unitech is a distributor or a manufacturer," says Mr Curry.

Even so, the main reason for wanting to get out of distribution is money. Unitech's share price of 199p, giving a multiple of 10 times historic earnings, was too low in Peter Curry's judgement to finance it with a rights issue. But relying on debt, when Unitech's capitalisation is less than three-quarters that of its target, would have left the company overgeared

The first element of this was the issue of 16.7m new shares in July to Elektrowatt, the Swiss electricity company, at the above-market price of 300p for a total consideration of £50m. This gave Elektrowatt nearly 30 per cent of Unitech's equity and left the group with net cash of about £20m.

Mr Curry thinks the disposal of Unitech's distribution businesses will improve the group's cash position by £80m, while the sale of unwanted Veeco businesses and retained earnings will bring in another £40m.

The result of the whole process will be that, in a year, the group will be only £40m in debt and will be ready to embark on its next set of acquisitions. The goal then, says Mr Curry, will be to build up the international reach of Unitech's other manufacturing divisions.

Levitt Group in joint venture

By Clare Pearson

LOMBARD ODIER, the private Geneva bank, is taking the unusual step of setting up a fund management joint venture with Levitt Group, the financial services concern in which LIT Holdings, fast diversifying futures and options broker, has a 24.5 per cent stake.

The agreement supplies Lombard Odier's London operation, which already oversees some £2m funds, with access to Levitt's British sales force.

Levitt, with just £355m under the management of its existing operation, wants to establish a presence in the institutional market. Its clientele consists mainly of wealthy individuals and companies.

The new vehicle, Levitt Investment Management Services, aims to provide a direct private client investment service, a range of unit trusts and pension fund management services. Assuming regulatory approval is obtained, it will start operations by early next summer.

LIT, bought its interest in Levitt about two months ago.

Scottish Ice Rink buys Pheasantry for £1m

By Clare Pearson

SCOTTISH ICE Rink Co (1928), one of the smallest of quoted companies, is making a bid to emerge from its obscurity with the purchase of The Pheasantry Group, best known for its Italian restaurant and wine bar on London's King's Road.

The £950,000 initial consideration is being satisfied by the issue of 500,000 new ordinary shares and £550,000 in cash, which is being financed by a placing of 715,000 new ordinary shares. There is a deferred consideration of up to £300,000 shares depending on profits.

The Pheasantry, with four central London wine bars and restaurant sites, incurred a pre-tax loss of £85,000 in the year to end-June, but Scottish Ice is confident of turning it round with the proper financial expertise. Net assets stood at £847,000 at the balance sheet date.

Mr Roger Peters, accountant, and Mr Clive Hamilton-Mudge took over the management of Scottish Ice, which suffered a pre-tax loss of £40,000 in the year to end-September, after a consortium of investors, including Sheffield United Football Club, took a 25 per cent stake a year ago.

Scottish Ice's shares were suspended at 84p last Wednesday.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Alexon, Beaverco, Brown & Tawse, Caradon, Clayhithe, Harmony Leisure, Leigh Interests, Reject Shop, Sterling Publishing.
Finals- Dobson Park, Lexicon, Trafalgar House.

FUTURE DATES

Interims-	
British Land	Dec. 7
Elga	Dec. 9
FKB	Dec. 12
Firth (G.M.)	Dec. 15
Goodman	Dec. 7
Greycoat	Dec. 8
Harland Simon	Dec. 6
Hicking Pentecost	Dec. 9
Russell (Alexander)	Dec. 12
TR Technology	Dec. 9
York Trust	Dec. 7
Finals-	
Chemring	Dec. 14
Grand Metropolitan	Dec. 8
Speyhawk	Dec. 8
Tunstall	Dec. 8
Whessoe	Dec. 8

Cranswick profits fall at midway

Pre-tax profits of Cranswick Mill Group fell for the six months ended September 30 from £431,000 to £315,000. The USM-quoted company is an animal feeds manufacturer, pigs wholesaler and grain merchant.

Turnover was up from £24.86m to £27.63m while after tax of £110,000 (£151,000) earnings per 10p share came out at 3.1p (5p). The interim dividend has been maintained at 1.85p and the board said it intended to review the final dividend in the light of the second-half performance.

Ferry Pickering withdraws offer

Ferry Pickering, packaging company, which briefly won the approval of the board of Cundell Group for a merger, has withdrawn its offer, which had attracted 11.6 per cent acceptances at first closing date.

The Ferry offer was first challenged by Crown Packaging, private company, which pitched in with a £28.6m offer. This was topped by a £33.3m bid from Dublin-based Jefferson Smurfit. This offer was favoured by Cundell which retracted its approval of the merger with Ferry.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Chieftain Group (Section: Industrials).Eco Corporation (Canadians).Estates & General Invs. 6% Conv. Pref. (Property).Jeyes Group (Chemicals).Melville Group (Industrials).Portmeirion Potteries (Industrials).Racal Telecom (Electricals).UTC Group 4.38% Red. Conv. Pref. 1998 (Trusts, Finance, Land).Utilitech Inc. (Americans).

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CONSTRUCTION CONTRACTS

Tunnel boring under the Baltic

JAMES HOWDEN AND CO, a member of the Howden Group, in association with its newly-acquired specialist tunnel boring equipment manufacturer, the German-based **WIRTH MASCHINEN UND BOHRGERATE FABRIK**, has been awarded a £41m contract to design, manufacture and supply four tunnel boring machines for the Storebaelt (the Great Belt) tunnel link in Denmark.

It is believed that this is the largest single contract for tunnel boring equipment ever awarded in Europe. Delivery will take place during the latter part of 1989.

The Storebaelt is an 18 km wide channel separating Jutland and Funen in the west, from Zealand in the east. A European and American consortium, the MT Group, has been awarded the contract to construct a link between Funen and Zealand.

The western part of this link will consist of a bridge joining Funen to a man-made central island and the eastern part will comprise a railway line through a 7.5 km tunnel.

The project will establish a permanent link costing £1.4bn between the island of Zealand, on which Copenhagen is sited, and Funen, already linked by bridge to the Jutland peninsular.

The four tunnel-boring machines will be 8.7 metres in diameter and 150 metres in length. Powered by 8 x 250kW (335 hp) hydraulic motors, the 1100-ton moles will bore through both hard rock and soft ground conditions. The system will also provide for the removal of the soil.

£96m orders awarded to Trafalgar House Group companies worldwide

TRAFALGAR HOUSE CONSTRUCTION has recently won contracts totalling more than £96m for a variety of projects awarded to several of its operating subsidiaries, both in the United Kingdom and overseas.

TROLLOPE & COLLS CONSTRUCTION has been awarded a £7m refurbishment contract in Whitechapel, London, for Berkeley House. Work on the five-storey building, which is located at 95-105 Back Church Lane, will involve constructing an interior to form 100,000 sq ft of light industrial units. The brick facade is to be retained, and will be cleaned and repointed. New aluminium windows to complement the brickwork, are being installed on every elevation. The project is due for completion in early 1991.

For Arab Bank, Trollope & Colls City is to complete a £1.5m fitting out contract, on a Grade II listed building at 13-15 Moorgate, London, EC2. The work will involve the supply and installation of internal fittings in the basement, ground, first and second floors, of the five-storey structure.

WILLETT has been awarded a £4.7m contract to design and construct a warehouse for associate company Trafalgar Brookmount. The building, which is known as the "Logistics Centre", will be used to provide a storage and distribution facility for aircraft spares for British Aerospace and is located on the Brooklands Industrial & Business Park, near Weybridge, Surrey.

Also at Brooklands, Willett has been awarded a building contract worth about £5m for an extension to a warehouse and office distribution centre for Tesco Stores.

At Cannon Street Station, London, EC4, **CEMENTATION** is undertaking a complex piling contract for Bovis Construction, which entails constructing 450 tripod piles, bored to depths of 30 metres. The site is located beneath the arches of the station, and working conditions are very restricted.

For Babcock Energy, **CLEVELAND BRIDGE** is to manufacture almost 5,000 tonnes of structural steelwork for the boiler house structure of the Yue Yang Thermal power station in the People's Republic of China. The contract, valued at £3.7m is due for completion at the end of 1989.

Cleveland Bridge is to carry out upgrading work on the main tower cross bracing of the Forth Road Bridge, Scotland, for Lothian County Council under a contract worth in excess of £2.6m.

In Tyne and Wear, Cleveland Bridge has won a £2m contract to construct part of the Newcastle western by-pass. The company will build a section of the by-pass, which includes the Blaydon Haugh viaduct, some 960 metres long utilising about 2,100 tonnes of steel.

GAMMON CONSTRUCTION, owned jointly by Trafalgar House and Jardine Matheson, has won contracts in Hong Kong and the Peoples Republic of China totalling £11.6m. They include: a £3.2m contract for site formation works at the Hong Kong University of Science and Technology; a landfill project at Junk Bay, Hong Kong, worth £2.7m; the construction of a switching station, valued at £2m, for a 132kV cable route from North Point to Morrison Hill zone substation in Hong Kong; and a £1.2m bored piling operation for the consortium building the new Tate's Cairn Road tunnel in Hong Kong.

Leisure facilities for Plymouth

SIR ROBERT McALPINE & SONS has been awarded a £15.8m contract by Morgan Grenfell (Local Authority Finance) for the construction of the "Plymouth Pavilions" leisure and exhibition centre.

The complex, with a total floor area of 12,000 sq metres, comprises two large sports halls, one designed for specific leisure activities and the other for multi-purpose use. These are basically circular in shape and are linked by a central mall also based on a circular design.

Construction generally is of steel frame on either piled or part piled and part ground bearing foundations. The three steel superstructures are separated from the remainder of the building by separation joints and stability in the multi-purpose hall is achieved by four reinforced concrete stair towers.

The leisure hall will contain a single storey ice rink, a two-storey swimming pool hall with a spectators gallery, an upper mall and a four-storey leisure tower. The finish in the swimming pool hall will be in keeping with a Greco-Roman baths and a Mediterranean village. A wrecked galleon will also be featured in this area.

External work includes an external plant room and service ramp structure, the construction of a roundabout and junction improvement to the perimeter roads, general service roads and car parking areas.

Offices development in Newport

A design and build contract, valued at about £11m, has been awarded to **PEARCE CONSTRUCTION** of Bristol. The scheme is for the first phase of 120,000 sq ft of offices at Tredegar Park, Newport, for the TSB Trust Company. Work should start on site in January 1989 with completion in 18 months.

The building is steel framed on three levels with full air conditioning and raised floors. The offices will house the latest electronic equipment and the air conditioning system has been designed to enable it to handle a large heat output from the offices with sufficient capacity to double the loading in the future.

CONTRACTS & TENDERS

BRADFORD TROLLEYBUS SCHEME

METRO (the West Yorkshire Passenger Transport Executive) is seeking an operator or operators to provide trolleybus services between Bradford City Centre and Buttershaw.

METRO intends to provide the overhead wires and secure the power supply. The successful operator or operators will be expected to provide vehicles and maintenance facilities and to operate the services.

Because trolleybus operation is expected, for a given quality of service, to be cheaper than conventional diesel bus operation, the successful operator or operators will be expected to share part of this benefit with METRO as a contribution towards the infrastructure.

The scheme will lead to the first trolleybus operation in normal service in the UK after a break of nearly twenty years, and is an opportunity for progressive operators to participate in a new mode of public passenger transport.

Prospective operators should contact METRO at the following address for further details by 9 December.

Secretary and Solicitor,
METRO HOUSE,
West Parade,
Wakefield WF1 1NS.

METRO

METRO IS A PUBLIC BODY FINANCED AND CONTROLLED BY THE WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

INTERVENTION BOARD FOR AGRICULTURAL PRODUCE INVITATION TO TENDER

Tenders are invited for the urgent supply of 2 x 25,000 tonnes of soft wheat to Bangladesh for delivery on FOB stowed and trimmed terms to an EEC port. Loading of 1st 25,000 tons shall commence no earlier than 15th January 1989 and no later than 15th February 1989 for 26 days.

Loading of 2nd 25,000 tons shall commence no earlier than 1st February 1989 and no later than 28th February 1989 for 26 days.

The price for the supply and transportation costs of the soft wheat for the above tenders will be determined on examination of tenders which must be submitted by noon on 15th December 1988 to:- Crops B (Cereals), Intervention Board for Agricultural Produce, Fountain House, 2 Queen's Walk, Reading, Berks RG1 7QW. Tel: Reading (0734) 583626 Ext. 2911.

Notices of invitation to tender together with tendering forms may also be obtained from the above address.

Wandsworth Borough Council

New Individual Heating Schemes.

Contractors wishing to be considered for selection to tender for the installation of new individual heating schemes at the following estates, should submit names to the Chief Executive and Director of Administration, Room 111, Town Hall, Wandsworth High Street, London, SW18 2Pu by 13th January 1989 quoting reference DH/40.

Argyle Estate, S.W.19.
Ackroydon Estates, S.W.19.
Hazelhurst Estate, S.W.17.
Patmore Estate, S.W.8.
Surrey Lane Estate, S.W.11.

The schemes will be let on an individual basis and range in estimated contract value from £350,000 up to £600,000. The work will involve the provision of individual gas-fired heating and hot water installations in occupied dwellings and will also entail an element of electrical and builder's work.

All applicants must provide the following information.

(a) the full name of the company wishing to be considered to tender;
(b) details of labour force and technical and supervisory staff available;
(c) names and addresses of three technical referees for whom similar work has recently been completed;
(d) a copy of the company's latest audited accounts which should be not more than eighteen months old;
(e) the name and address of the company's banker;
(f) a copy of the company's policy statement produced in accordance with Section 2(3) of the Health and Safety at Work, etc, Act, 1974.

(N.B. Applicants should refer only to the above-mentioned scheme and must not incorporate replies to other advertisements placed by Wandsworth Borough Council. Late applications will not be considered).

It is anticipated that tenders will be invited from selected contractors in April 1989 with a view to commencing on site in the summer of 1989.

The engineering services for the schemes will be provided by consultants, to be appointed shortly, under the direction of Mr. R.J. Sheppard, F.R.I.C.S. FIH, Director of Housing, Town Hall, Wandsworth High Street, London, SW18 2PU.

G.K. JONES
Chief Executive and
Director of Administration

COMPANY NOTICES

CREDIT FONCIER DE FRANCE
ECU 50.000.000.- Floating Rate Notes 1983/1993

Bondholders are hereby informed that the rate applicable for the twenty-fourth interest period has been fixed 8 1/4 %.

Coupon N° 24 will be payable as from February 28th, 1989 at the price of ECU 206, 25 equivalent to an interest of 90 days, covering the period from November 30th, 1988 to February 27th, 1989 inclusive.

The Reference Agent
CREDIT LYONNAIS LUXEMBOURG

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Subscription period for shareholders: From 28th November 1988 to 7th December 1988

Contact:
Morgan Guaranty Trust Company of New York
P.O. Box 161, Morgan House,
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Alan Carter,
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By interlocutor of the Court of Session dated 21st October 1988 the Court sanctioned the Scheme of Arrangement resolved on by the Special Resolution dated 14th June 1988 and directed Registration with the Registrar of Companies of (1) a copy of the interlocutor of the Court of 21st October 1988 (2) a copy of the Scheme of Arrangement as certified by the solicitors for the Company and (3) a copy of the undertaking No. 49 of process as certified by the solicitors for the Company, and ordered that notice of said Registration when made, to be given by advertisement once in the Edinburgh Gazette and once in each of the Scotsman and Financial Times newspapers: notice of which is hereby given.

Richards Butler, Solicitors, 5 Clifton Street, London EC2
MacRoberts, Solicitors, 27 Melville Street, Edinburgh

DIARY DATES

PARLIAMENTARY

Today

Commons: Elected Authorities (Northern Ireland) Bill, second reading.

Motion on EC documents relating to Community finance.

Select committee: Public Accounts: subject, quality of clinical care in NHS hospitals. Witnesses: Mr L. Peach, chief executive, NHS management board; Mr W. Reid, secretary, Scottish Home and Health Department; Mr J. Owen, director of NHS in Wales. (Room 16, 4.30 p.m.)

Tomorrow

Commons: Prevention of Terrorism (Temporary Provisions) Bill, second reading.

Lords: Children Bill, second reading.

Question to Government on action to promote direct intercontinental air services to regional airports.

Committee on private bills: Associated British Ports (No. 2) Bill; North Killingholme Cargo Terminal Bill. (Room 6, 11 a.m.)

Wednesday

Commons: Water Bill, second reading.

Lords: Debate on high level of consumer debt.

Debate on level of assistance available to people with mental illness or mental handicap moved from residential care to the community.

Select committees: Environment: subject, toxic waste. Witnesses: National Association of Waste Disposal Contractors. (Room 21, 10.30 a.m.)

Foreign Affairs: subject, eastern Europe and the Soviet Union. Witnesses: Prof R. Amann, director, Centre for Russian and East European Studies, University of Birmingham, and Mr A. Brown, St. Antony's College, Oxford. (Room 15, 10 30 a.m.)

Defence: subject, future of the Brigade of Gurkhas. Witness: Roger Freeman MP, Under-Secretary for the Armed Forces, and officials from the Ministry of Defence and Foreign and Commonwealth Office. (Room 16, 10.50 a.m.)

Agriculture: subject, land use and forestry. Witnesses: Forestry Industry Committee of Great Britain and Timber Growers UK.(Room 20, 11.15 a.m.)

Employment: subject, employment patterns of the over-50s. Witness: Department of Employment and Training Agency. (Room 8, 4.15 p.m.)

Foreign Affairs: subject, Eastern Europe and the Soviet Union. Witnesses: Mr C. Donnelly, director, Soviet Studies Centre, Royal Military Academy, Sandhurst; Dr M. Light, Department of International Relations, London School of Economics and Mr M. Mackintosh, formerly of the Cabinet Office. (Room 20, 4.15 p.m.)

Home Affairs: subject, Forensic Science Service. Witnesses: Metropolitan Police and Criminal Bar Association. (Room 15, 4.15 p.m.)

Public Accounts: subject, implementation of the Common Agricultural Policy in Great Britain. Witnesses: Mr D.H. Andrews, permanent secretary, Ministry of Agriculture, and Mr G. Stapleton, chief executive, Intervention Board for Agricultural Produce. (Room 16, 4.15 p.m.)

Transport: subject, roads for the future. Witness: Transport Department. (Room 17, 4.15 p.m.)

Procedure: subject: MPs' conduct and alleged abuse of parliamentary privilege. Witnesses: Mr David Waddington, Government Chief Whip, and Mr Frank Dobson, shadow Leader of the House. (Room 5, p.m.)

Committee on private bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.)

Thursday

Commons: Water Bill, second reading.

Lords: debate on directions given by Home Secretary to the BBC and IBA to restrict broadcasting of statements by Northern Ireland's terrorist organisations and their supporters.

Question to Government on possible restriction of right of lords to vote in divisions on the basis of a given number of attendances over a specified period.

House of Commons Services Committee: computer sub-committee. (Room 13, 10.30 a.m.)

Committee on private bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.)

Friday

Commons: debate on the Multi-Fibre Arrangement.

FINANCIAL

TODAY
COMPANY MEETINGS-
Paterson Zochonis, Holiday Inn Crowne Plaza Midland Hotel, Peter Street, Manchester, 12.00
BOARD MEETINGS-
Finals:
Dobson Park
Lexicon
Trafalgar House
Interims:
Alexon
Beaverco
Brown & Tawse
Clayhithe
Harmony Leisure Group
Leigh Interests
Reject Shop
Sterling Publishing
DIVIDEND AND INTEREST PAYMENTS-
AB Electronic Products Group 12p
Barry Wehmiller Intl. 3p
Bilton (Percy) 5.15p
Do. Accum 0.1p
Casket 1.8p
Conrad Hldgs. 1p
Croda Intl. 3.8p
Gillette 21.5cts.
Hammerson Prop. Inv. & Dev. Corp. 3p
Do. A 3p
Hay (Norman) 0.66p
Kingston Oil & Gas 0.625p
Kleinwort, Benson Group 5.3p
Ladbroke Group 6.9p
Laird Group 3.5p
Lockhead Corp. 40cts.
Monotype Corp. 1.7p
RJR Nabisco 55cts.
Redland 6.25p
Rockwell Intl. Corp. 18cts.
Rolls-Royce 2.1p
Securities Trust of Scotland 1.5p
Tyzack (W. A.) 3.5p
Vanbrugh Currency Fd. Ptg. A Red. Prf. 4.7p
Do. Ptg. B Red. Prf. 470p

TOMORROW
COMPANY MEETINGS-
Cairn Energy, 64 Queen Street, Edinburgh, 12.00
Klark-Teknik, Klark Industrial Park, Walter Nash Road, Kidderminster, Worcestershire, 12.00
Photo-Me, Station Avenue, Walton-on-Thames, Surrey, 6.00
Scottish Metropolitan Property, The Albany Hotel, Bothwell Street, Glasgow, 11.30
BOARD MEETINGS-
Finals:
Anglia Secure Homes
Cronite Group
Eldridge, Pope & Co.
Leeds
Logitec
Mecca Leisure
VPI
Interims:
Argyll Group
Atkins Bros.
Bogod-Pelepah
Booth Inds.
Cape Inds.
Coalite Group
Continuous Stationery
Crosby (J.) Group
Equity Consort Inv. Tst.
General Electric
Harland Simon
ITL Info Tech.
Joseph (Leopold)
Learmonth & Burchett Mngt.
MS Intl.
Northern Foods
Reed Exec
TGI
Yellowhammer
DIVIDEND AND INTEREST PAYMENTS-
Anglo American Inv. Tst. 530cts.
BFG Finance Co. BV Fltg. Rate Nts. 1996 $221.18
Cadbury Schweppes 9% 1st Mtg. Deb. 88/93 4.5pc.
Export-Import Bank of Korea Fltg. Rate Nts. Dec. 1996 $413.02
Glynwed Intl. 7½% Deb. 89/94 3.75pc.
Greenhall Whitley 4½% Deb. 87/92 2.25pc.
Do. 7¼% Deb. 87/92 3.625pc.
IBM Credit Corp. Fltg. Rate Yen-linked Nts. $406.57
Ladbroke Group 8% Gtd. Uns. Ln. 90/92 4pc.
New Central Witwatersrand Areas 75cts.
New Zealand Fltg. Rate Nts. 1996 $400.31
Paterson Zochonis 5.95p
Do. A NV 5.95p
Standard Chartered Und. Prim. Cap. FRN (Ser. 3) $407.94
Watney, Mann & Truman Hldgs. 7% Red. Deb. 88/93 3.5pc.

WEDNESDAY DECEMBER 7
COMPANY MEETINGS-
Barrett (Henry) Group, Victoria Hotel, Bradford, 11.00
Kalamazoo, Mill Lane, Northfield, Birmingham, 11.30
Kleinwort Development Fund, 20 Fenchurch Street, E.C., 11.30
Lawtex, The Bower Hotel, Hollinwood, Oldham, 3.00
Medminster, 3 Whitehall Court, S.W., 11.30
BOARD MEETINGS-
Finals:
Albion
Avon Rubber
BTP
Bass
City Site Estates
Grainger Tst
Hanson
Saatchi & Saatchi
Interims:
Allied Colloids
Avesco
Birmingham Mint
British Land
Dominion Intl.
Evans of Leeds
Goodman
Hazlewood Foods
Latham (J.)
Oceonics
Salvesen (Christian)
Tamms (John)
York Tst
Zambia Cons. Copper Mines
DIVIDEND AND INTEREST PAYMENTS-
Arab Banking Corp. (B. S. C.) Fltg. Rate Nts. 2000 $403.49
Cons. Gold Fields Fin. Gtd. Fltg. Rate Nts. 1995 £154.62
Gerrard & National Hldgs. 3p
Israel Electric Corp. 5p
P & O Property Hldgs. Ld. 7½% 1st Mtg. Deb. 97/02 3.75pc.
Peters (Michael) Group 2.2p
Prudential Corp. Fltg. Rate Nts. 1995 £306.51
RBC Canadian Fd. Ptg. Red. Prf. 6.1cts.
Racal-Chubb 8½% Uns. Ln. 87/92 4.25pc.
Do. 8% Uns. Ln. 92/95 4pc.

THURSDAY DECEMBER 8
COMPANY MEETINGS-
Beckman (A.), 111-113 Great Portland Street, W., 12.00
Pressac Hldgs., The Post House, Bostocks House, Sandiacre, Nottingham, 3.00
BOARD MEETINGS
Finals:
Archer (A. J.)
Berisford (S & W)
Burns Anderson
Chrysalis
Grand Met.
Lovell (Y. J.)
Richards
Speyhawk
Turnstall
Wheasoe
Interims:
Alexander (Walter)
Boasse Massimi Pollit
FKI Babcock
Gibbon Lyons
Greycoat
Hunter Saphir
Jack L. Israel
Johnson Matthey
Middle Witwatersrand (Western Areas)
Optometrics (USA)
Osbourne & Little
Scapa
Thorn EMI
Toothill (R. W.)
Vinten
Zandpan
DIVIDEND AND INTEREST PAYMENTS-
Bank of Ireland Und. Fltg. Rate Prim. Cap. Nts. $219.60
Chase Manhattan Corp. Fltg. Rate Nts. 2009 $216.44
Ferguson Ind. Hldgs. 3.75p
Grand Central Inv. Hldgs. 0.35p
Hongkong & Shanghai Banking Corp. Prim. Cap. Und. FRN 2nd Ser. $108.01
Kalamazoo 1.5p
Lonrho Finance 4¾% Cnv. Gtd. Bds. 2001 $23.75
M. Y. Hldgs. 0.55p
Mier Finance (Cayman) Ld. Gtd. Fltg. Rate Serial Nts. 1999 £851.46
Photo-Me Intl. 2.4p
Priest, Marians Hldgs. 3.3p
Reed Intl. 5% Prf. 1.75p
Do. 7% Prf. 2.45p
Sindall (Wm.) 1p

FRIDAY DECEMBER 9
COMPANY MEETINGS-
Five Oaks Investments, The Savoy Hotel, Strand, W.C., 11.00
Highland Electronics Group, Highland House, 8 Old Steine, Brighton, 12.30
Wolseley, Vines Lane, Droitwich, Worcestershire, 2.30
BOARD MEETINGS-
Finals:
Crystalate Hldgs.
Greene King & Sons
Interims:
Airsprung Group
Assoc. British Eng.
Boscombe Prop.
Bristol Evening Post
Elga
Erskine House
Hicking Pentecost
TR Technology
DIVIDEND AND INTEREST PAYMENTS-
Alcan Aluminium 30cts.
Allied-Signal Inc. 45cts.
Anheuser-Busch Cos. Inc. 18cts.
Boeing 40cts.
Bridon 2p
Colroy 0.85p
Dun & Bradstreet Corp. 43.5cts.
East Rand Gold & Uranium Co. Ld. 13.81377p
Do. S 13.81377p
Elders IXL 9.5cts.
Farnell Electronics 1.8p
First Interstate Overseas NV Gtd. Fltg. Rate Sub. Nts. 1995 $213.28

SATURDAY DECEMBER 10
COMPANY MEETINGS-
Cradley Print, Pedmore House, Ham Lane, Pedmore, Stourbridge, 10.30
VSEL Consortium, VSEL Sports Club, Hawcoat Park, Hawcoat Lane, Barrow-in-Furness, 11.00
DIVIDEND AND INTEREST PAYMENTS-
Grace (W. R.) & Co. 35cts.
Houston Inds. 74cts.
Scott Paper 20cts.
Travelers Corp. 60cts.
Treasury 8% 1991 4pc.
USX Corp. 35cts.
United Technologies Corp. 40cts.

SUNDAY DECEMBER 11
DIVIDEND AND INTEREST PAYMENTS-
Treasury 3% 1992 1.5pc.

Trade Fairs and Exhibitions: UK

December 5-8
Royal Smithfield Show & Agricultural Machinery Exhibition (01-235 0315)
Earls Court

December 9-12
Clothes Show (01-834 1717)
Olympia

December 16-17
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall

December 31-January 8
Model Engineers Exhibition (0442 41221)
Wembley Centre

January 4-15
London International Boat Show (0932 854511)
Earls Court

January 5-8
Holiday and Travel Fair (021-780 4171)
NEC, Birmingham

January 7-12
International Toy Fair (01-226 6653)
Harrogate

January 12-15
Northern Travel Fair (01-891 5061)
G-Mex Centre, Manchester

January 15-18
International Lightshow Exhibition (0588-4658)
Olympia

January 17-19
International Contract Flooring Exhibition (021-705 6707)
Olympia

January 20-22
Daily Mail International Holiday Exhibition (0895-72277)
Alexandra Palace

Overseas Exhibitions

December 7-15
Children's World Exhibition (01-437 3344)
Kuwait

December 8-11
Singapore Informatics Exhibition (01-589 1943)
Singapore

December 13-16
International Defence Equipment Exhibition and Conference – DEFENCE ASIA (0494-729406)
Bangkok

January 11-14
Toy Show (01-930 7955)
Hong Kong

January 15-19
International Food Fair of Scandinavia (01-439 0992)
Copenhagen

January 20-23
Leather and Suede Fashion Exhibition – PIELESPANA (0494-729406)
Barcelona

January 23-26
Middle East Electronic Communications and Computer Graphics Shows and conference (01-486 1951)
Bahrain

January 29-February 1
Irish Crafts Trade Fair (Dublin 884939)
Dublin

Business and management conferences

December 5-6
Royal Institute of International Affairs/British Institute of Energy Economists/International Association for Energy Economics: Third international energy conference (01-930 2233)
Chatham House, London

December 5-6
Financial Times Conferences: The outlook for oil (01-925 2323)
Hotel Inter-Continental, London W1

December 5-6
FIBEX: National finance directors' conference (01-837 1133)
Le Meridien Hotel, London

December 6
Northern Development Company/Grant Thornton: Europe 1992 – getting beneath the surface (091 261 2631)
Newcastle upon Tyne

December 8
Business Briefings: Private enterprise and developing countries (01-381 1284)
Glaziers Hall, London

December 12
The Institute of Chartered Accountants: Improving business performance – today's challenge (0908 668833)
The Gloucester Hotel, London

December 13
The Henley Centre: The UK economy : boom or bust-looking at the next five years (01-353 9961)
The Cavendish Conference Centre

December 13-14
Financial Times Conferences: World Telecommunications (01-925 2323)
Hotel Inter-Continental, London

December 14
CBI Conferences: Equal pay for work of equal value – after Hayward and Pickstone (01-379 7400)
Centre Point, London

December 15
Pira: The single European market-the enlarged market and the implications for packaging ((0372-376161)
Blackburn

January 9-13
Management Training Consultants: Techniques of supervisory and management training for trainers (0533-627062)
Leicester

January 10-12
AD 2000 Management Services/Indevo: Business location strategy (01-977 3474)
The Barbican Centre

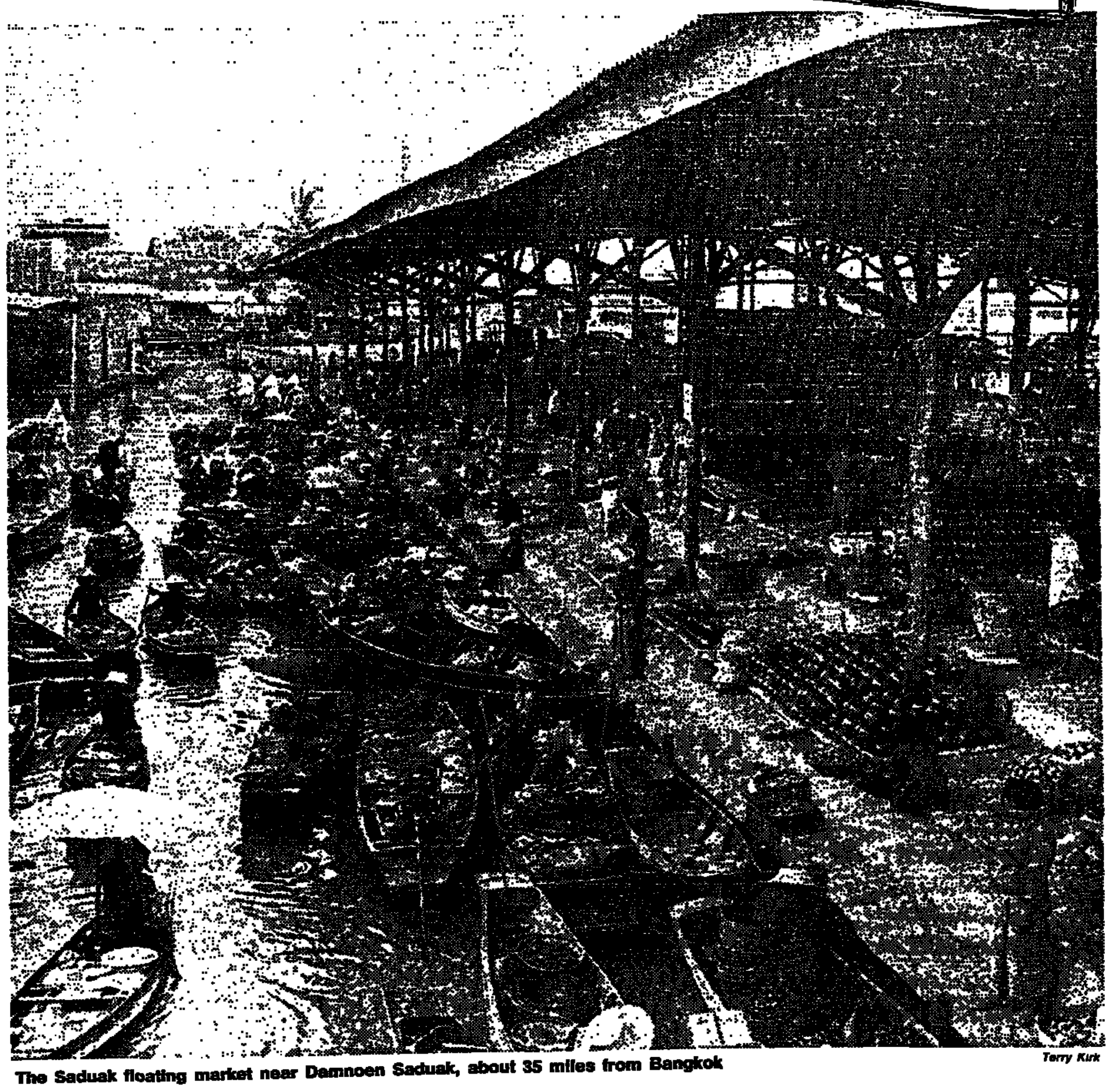
January 17-18
Institute for International Research: Corporate identity and design management (01-434 1017)
CFS Conference Centre, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

FINANCIAL TIMES SURVEY

With the economy growing strongly and an elected head of government for the first time in 12 years, Thailand's reputation as one of Asia's most exciting prospects has been enhanced in the past year. But rapid growth is imposing strains, writes **Roger Matthews**

ON OTHER PAGES



The Saduak floating market near Damnoen Saduak, about 35 miles from Bangkok

Terry Kirk

THAILAND

Prolonging a 'golden era'

THAILAND HAS become internationally fashionable in a way which has eluded the other nations of South-East Asia. It is perceived as an exotic, yet safe, destination by the young upwardly mobile of Europe and by the holidaying car workers of Japan who clog the hotels of Bangkok and Phuket. It is just liberal enough not to make vote-buying seem an insurmountable obstacle to further democratic progress.

The country has a history of military coups, but not of destabilising insurrections. It is surrounded by often awkward neighbours, whose inability to manage their own affairs spills over into Thailand but has not seriously threatened its security. Its often cumbersome and frustrating bureaucracy appears not to have dented its reputation for laissez-faire capitalism. And for foreign investors and pundits it has become Asia's next most likely candidate for the equally fashionable accolade of newly-industrialising country.

Maintaining an equilibrium between these conflicting trends and characteristics in order to permit continued high levels of economic growth will not be easy. The triumph of the 1980s has been that, when the scales have been finely balanced, the decisive tilt has been in a direction to sustain rather than diminish foreign and local investor confidence.

During the last week in November it was instructive to sit for hours in Bangkok's foully polluting traffic jams reading accounts of the devastating flooding and grim death toll in the south of the country (caused in large part by recklessly irresponsible deforestation) while still having to give some credence to assurances that Thailand has indeed entered its much publicised "golden era".

Certainly, the statistics glitter. From 1978-1982 Thailand's gross domestic product grew on average by nearly 7 per cent a year. During the next five years, which included a world recession, Thailand still managed 5 per cent, a better performance than most comparable countries. In that time its exports climbed by over 14 per cent a year, double the rate of successful Singapore.

This year export growth could be close to 25 per cent, with GDP rising by probably 10 per cent, its best 12 months since 1978.

Foreign investors have generally liked what they have found in Thailand. Scarcely one could put his hand on his heart and swear that he has not been forced to lubricate the financial wheels of the country's officialdom, but once done the comparative advantages are substantial.

Land prices are still attractive, building costs highly competitive, but the real attraction is still the size and availability of the labour force. Last month, when the minimum labouring wage was marginally increased to \$3 a day, exaggerated mutterings could be heard in Bangkok about the dangers of Thailand pricing itself out of the Asian investment market.

The argument was that with per capita GNP last year at \$887, with 65 per cent of the 30m labour force employed in agriculture and contributing just 16 per cent of that GNP, and with a large pool of unemployed and underemployed to be mopped up, no increase in the minimum wage could be economically justified. Few red-blooded entrepreneurs, who tend to be thick on the ground in Thailand, found any fault in the logic of the argument.

For them, self-interest and national interest are virtually synonymous. What is good for business must be good for Thailand. The snag is that since August, and rather against the odds, Thailand has had an elected government, the first for 12 years.

Getting elected is not cheap. Indeed, the impact of candidates' spending activities on domestic demand is a factor considered by economic planners. It is also expected that subsequent government decisions would in part reflect the need to recoup election expenses. What is more novel, and therefore unpredictable, is that elected ministers appear to feel themselves susceptible to popular pressure.

General Prem Tinsulanonda, the longest-serving of Thailand's modern prime ministers whose eight-year tenure ended in August, was not elected. He had, of course, to be acceptable to the monarchy, Thailand's most respected institution, to the all-pervasive military, and to the civil service elite (in that order) but could afford to stand largely aloof from politicking at party level. It was precisely because the parties could not come up with a candidate acceptable both to them and to the country's most powerful institutions that Gen Prem had been initially asked to head the coalition.

It was only when Gen Prem decided that he had had enough that the way opened for former Gen Chatichai (the middle "i" is silent) Choonhavan, as leader of the largest single party, to become Prime Minister. The transition to nominally greater public accountability is proving rather bumpy with some ministers using their elected status as a lever to prise more of the decision-making process away from the civil service mandarins while paying even less lip-service to the notion of conflict of interest.

One of Thailand's strengths has been its coterie of often western-educated top civil servants who provided the technical skills and long-term strategy on which ministers based, or endorsed, decisions. Some insiders fear that this well-proven system is starting to be eroded, with greater emphasis being placed on swift personal gain and short-term political expediency.

Examples cited include the decision on minimum wages, the reduction in petrol prices which might prove politically impossible to reverse even if the Organisation of Petroleum Exporting Countries succeeds in establishing a consistently higher price, plans to create a super-ministry to administer the often inefficient and loss-making nationalised enterprises, and the apparent abandonment of the previous government's already modest privatisation programme.

Government critics see in this the influence of the public sector trade unions and fear its consequences as an overheating economy nudges inflation higher and creates inevitable bottlenecks in the infrastructure and in the skilled labour market. They fear it may also distort government spending priorities with additional funds being diverted to prop up ailing state companies instead of being directed to urgently needed port improvements, additional aircraft for the profitable state airline, and the provision of more extensive technical education.

One recent estimate suggested that new companies arriving in Thailand this year could alone absorb the entire output of new non-arts graduates. It also serves to undercut the often-heard Thai complaint that foreign companies, especially the Japanese, are slow to transfer middle management responsibilities to local staff.

Although industrial growth will suffer from a bout of indigestion in the next two to three years as the country's infrastructure struggles to catch up, and even should the US take a tough stand on the issue of the generalised system of preferences or Europe become more protectionist minded, Thailand still looks better situated that most of its immediate regional competitors.

It is a relatively resource-rich country, as demonstrated by the size of its rural population and, with the lion's share of new investment having been directed towards industrial development, there has as yet been little effort to realise the country's considerable agricultural potential.

With regional pay disparities widening alarmingly, it may also become a political imperative. Bangkok's raunchy reputation owes no little to the economic necessities imposed on the families of the bread-line farmers of the north-east, and its congested streets to the absence, until recently, of any major scheme to site industry away from the main metropolitan area. The massive Eastern Seaboard Development Programme, centred on the petrochemicals industry, should in the next decade provide an important new focus for industrial growth, but will offer little solace to the mass of the rural poor.

Fashionability is, as ever, very much in the eye of the beholder. While it may be reassuring, or not, for millions of foreign tourists to have Beaujolais Nouveau pressed on them at every meal, it contrasts ever more vividly with life outside the walls of luxury hotels.

Thais have a well-earned reputation for being excellent and well-disciplined workers who are publicly polite to foreigners. But the trickle-down effect of national economic growth may well need a more emphatic official push if the present government is to strike a stabilising balance between its reputation as a cabinet of business interests and its claim to be the popular representative of the people.

These are Chatichai cabinet's "early days," say the dubious

Prem proves a hard act to follow

THE APPOINTMENT of Gen Chatichai Choonhavan as Prime Minister of Thailand in August was greeted by a sharp intake of breath in many business, media and military circles. His "pro-business" Chart Thai party, it was feared, heralded *an era of increased corruption* and would bring four years of economic boom and 12 years of political stability to a shuddering halt.

This slightly shrill reaction was reinforced by the appointment *of a number of politicians* linked with notorious business scandals to sensitive cabinet posts that influence the outcome of huge infrastructure projects.

Strong reservations remain, as reflected in the frequent comment that "these are early days." And a number of projects – notably a hastily signed telephone contract and a Bangkok road system – suggest inadequate scrutiny at the very *least*.

But nearly four months after the election, the doomsday fears are subsiding. Thailand's first elected Prime Minister since 1976 and his cabinet of almost entirely elected MPs *have not yet lived down to the* public's dire expectations.

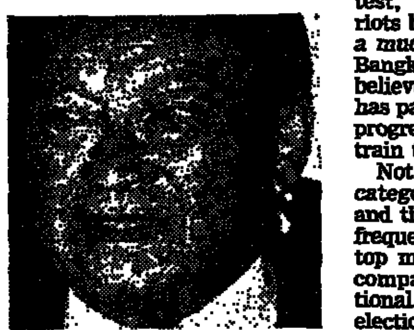
However, the arrival of a *greater* degree of democracy is altering the balance between the three pillars of political stability in Thailand – the *respected* King, the powerful army and the crucial technocrats – on which economic success has been built.

Much of the credit for that stability goes to General Prem Tinsulanonda, the Prime Minister for eight years until he called elections on July 24 probably to avoid a confidence vote. A *somewhat aloof former* army commander who seemed to have grown tired of political bickering, Gen Prem looks increasingly good by comparison with Gen Chatichai in his first, slightly stumbling months. *His retiring style* commanded the *krengjai* or mixture of awe and respect, that his successor has yet to enjoy.

Gen Prem surprised almost everyone after the election when he refused to heed requests from a number of military commanders and political leaders, including Gen Chati*chai, to lead a new coalition.* After some hesitation, Gen Chatichai's Chart Thai party with 87 seats agreed to head a government that also includes the Social Action Party with 54 seats, the Democrats, with 48 seats, and *Rassadorn*, or "Citizen" party which has 21 seats and close ties with the army.

The Democrats lost more than half their seats but that had little to do with ideological differences, which are virtually *unidentifiable in Thai political* parties. The country's politics remains dominated by personalities who will chop and change party allegiance and even finance candidates from other parties if it will help their *quest for ministerial* office. Thai people have come to accept that many politicians see ministerial office as a money-back guarantee on the cost of election.

The transition from Gen Prem *has been dominated* by the new coalition moving its players into key posts but also by a noisy debate over the role of the powerful bureaucracy.



Gen Chatichai Choonhavan, Thailand's Prime Minister

These planners, in particular the National Economic and Social Development Board (NESDB), are widely credited with providing the financial prudence that laid the foundation for Thailand's economic *successes in the same way that* their counterparts did in South Korea.

On one level, the argument is about elected cabinet ministers trying to wrest control of decisions from unelected man*darins, an issue* not *peculiar* to democracies in transition. On another, more worrying level to technocrats, the issue is once again high-level corruption. Under Gen Prem, the NESDB was allowed to block pet projects of certain politicians and may now have its wings clipped by those it then *crossed*.

Any changes are likely to be gradual, but more democracy almost inevitably means less technocracy.

"The NESDB has to do more homework and less decision-*making but it will still have* tremendous influence," says Mr Kraisak Choonhavan, the son of the prime minster, who is part of a kitchen cabinet of advisers to his father.

Keeping a watchful eye over *this squabble is Thailand's* army which is going through its own transitions. Twelve years after the last successful coup but only three years since the army last left the barracks to attempt to take power, politicians *still look over their* shoulders at the army. At times of political tension, like before the recent elections, coup rumours abound.

Most commentators say it would take a severe breakdown *in economic or public order* before the military stepped in again. Thailand has moved on from 1976 when the army ended a period of student protest, widespread strikes and riots by taking power. There is *a much larger middle* class in Bangkok who, like Gen Prem, believe the time of army coups has passed and do not want the progress of the economic gravy train threatened.

Not least important in this *category are former officers* and those about to retire, who frequently take sinecures and top management jobs in state companies like Thai International. Nevertheless, since the election there has been increas*ing talk that, should the politi*cians get out of control, the army might step in again. Furthermore, the King has said that he expects politicians to work for the good of the people, and by inference not solely for themselves.

Through links with business and the albeit receding threat *of the tanks, there are few* important decisions in Thailand that are not at least run by the army. Although the cabinet has no army representative now, Gen Chatichai has appointed Lt Gen Panya Sing*sakda to be the key position of* his Secretary General.

This year's annual military promotions, which have made politicians' hearts flutter in the past, were well accepted and left Gen Chaovalit Yongchaiyat, the army chief, in a stronger position from which to retire next year into a life in *civilian politics*.

With the threat from Communist Party of Thailand insurgents, who had their day in the 1970s, now non-existent and only skirmishes with small

KEY FACTS AND INDICATORS

Official title	Kingdom of Thailand
Head of State	King *Bhumibol Adulyadej*
Prime Minister	Gen Chatichai Choonhavan
Capital	Bangkok
Official language	Thai (English and Chinese also spoken)
Area	513,115 sq km
Population	54m (1987 estimate)
Currency	100 satang = 1 baht
Average exchange rate (1987)	£1 = Baht 42.155; $1 = Baht 25.723
Exchange rate (November 1988)	£1 = Baht 45.60; $1 = Baht 24.823
GDP (1987)	Baht 1,168.1bn
GDP per capita (1987)	$841 (Baht 21,631)
Unemployment	2 per cent in 1986 (much underemployment)
Inflation	2.5 per cent (1987)
Principal exports (1987 percentages)	Textiles and garments 20.8; rice 7.6; tapioca 6.9; rubber 6.85
Tourism receipts (1987)	Baht 50.04m
Number of tourists (1987)	3.5m
Trade balance (1987)	-$11,981m
Current account balance (1987)	-$529m
National Day	December 5 (King's birthday)

Moslem groups in the far south *to occupy his soldiers*, Gen Chaovalit has launched himself into cleaning up the army's image. Under his guidance, soldiers are increasingly involved in civic action, particularly in the "greening" of the depressed north-east where water shortage is a major problem. But Gen Chaovalit's chances of having his day as Premier, which would need the tacit acceptance of the Palace, may have been hindered by suggestions *that he is a little* left-wing.

Gen Chaovalit's greening programme, however, is close to the heart of the third and most enduring element behind Thailand's stability, King Bhumibol Adulyadej. His support for development projects nationwide has earned him the *adulation of Thai people and* a reputation that he provides Thailand's most cohesive force.

"Politics and political institutions don't matter much to most people in Thailand but the King reaches over these to ordinary *Thais*," one observer said.

At some stage the privy council and the King, who is now Thailand's longest reigning monarch, will have to address the difficult question of succession, at which point he will retire to a traditional Buddhist retreat. For the *moment, there is a consensus* that the King is *crucial* to Thailand's stability and he is unlikely to step aside.

Though Thailand appears a relatively stable place under Gen Chatichai, despite con*cerns over the probity of some* cabinet members, it shows no signs of becoming a more caring country. As its wealth grows, the huge discrepancies in income distribution become more glaring. The prevailing *view is that as long as the pie* keeps growing, *everyone* gets more to eat.

However, recent increases in trade union activity warn how social tensions could rise as a by-product of economic success and be exacerbated by more migration from the poor north-east to the main growth areas around Bangkok.

Labour is currently badly organised, if at all, and even unable to interest politicians in getting the minimum wage applied. But Gen Chatichai has been rattled by public and pri*vate sector labour disputes*, commentators say. After three years of no change, the minimum wage was grudgingly raised by Baht 5 (US 20 cents) to Baht 78 a day. But it remains irrelevant to large numbers of factory workers who are retained as temporary staff so as to avoid the minimum wage laws.

There is no reason why labour should necessarily remain unorganised. The prevailing view among Thais that politicians go to Parliament for two days a week in the one *three-month session* a year simply to enrich themselves is hardly likely to oil relations between Thailand's workers and businessmen.

Richard Gourlay

FOREIGN POLICY

Meet the neighbours

IT ONLY takes a brief glance at the activity around Thailand's borders to explain why foreign policy makers are preoccupied with immediate neighbours.

To the west, refugees from a repressive Burmese army takeover have joined insurgent groups in the border hills and occasionally cross into Thailand, bringing Bangkok closer to Rangoon's troubled politics than it has been for some time. To the north and east the year began with Laos giving the *Thai army a bloody* nose in border skirmishes, in what turned out to be a squabble over illegal logging, and ended two weeks ago with a visit to the Lao capital, Vientiane, by Mr Chatichai Choonhavan, the Thai Prime Minister who was elected in August. And to the east is Thailand's pre-eminent concern, the 120,000-strong Vietnamese army that *still* occupies Kampuchea, preventing 300,000 refugees from leaving Thai soil.

To each of these areas Mr Chatichai has brought his own flamboyant style and a hands-on approach quite different from that of Mr Prem Tinsulanonda, his predecessor, *who left the Foreign Minister* a fairly free hand.

One result is that Thailand's foreign policy, like its economic policy, is entering a more ambiguous period, in which Foreign Ministry and *Prime Minister may differ pub*licly and the influence of powerful business interests in Mr Chatichai's party will be more strongly felt. But whereas doubts about Mr Chatichai's ability to follow sound economic policies are widespread and well-rooted, there is little concern that Thailand is about to change significantly its strongly capitalist, mildly non-aligned foreign policy.

Soon after taking over, Mr Chatichai shook up the Foreign Ministry, still headed by Mr Siddhi Savetsila, by *announcing what appeared to* be a change in how Thailand as a front-line state sees it should press Vietnam to withdraw its troops from Kampuchea.

Indochina, Mr Chatichai said, would be transformed from "a battlefield into a marketplace." That flew in the *face of established Foreign* Ministry policy that no official contact should take place before a complete Vietnamese troop withdrawal. It established that Thailand is now prepared to talk about, and possibly encourage, private business links with Vietnam. Mr Chatichai promptly announced a trade visit to Laos, which has strong cultural *links with Thailand but* is still occupied by Vietnamese troops, and his advisers floated tentative plans for a trip to Hanoi in June next year.

The change has been one of degree and divergent views have been exaggerated in part by new Chatichai advisers with a long-held antipathy towards Mr Siddhi. Mr Chatichai travelled to Singapore, Malaysia and Indonesia and appears to have allayed any fears that Thailand is breaking with Asean policy.

That policy remains that the Vietnamese-backed Hun Sen regime in Phnom Penh must

Thais simply ask why they, like Singaporeans who trade $200m a year, should not have more unofficial contact with Hanoi

negotiate a transition of power which includes the Khmer Rouge, the discredited regime that was ousted by the 1978 *Vietnamese invasion but can*not be ignored because with China's backing it operates the strongest of four resistance armies. The solution should not, however, allow the Khmer Rouge to dominate a post-Vietnam era Kampuchean government, nor presumably allow a role for Pol Pot, the Cambodian premier responsible for the "Killing Fields."

But the change of emphasis is nevertheless real. It is also not altogether surprising given both the business slant in the Chart Thai party and the way *other Asean countries are qui*etly operating a double track policy towards Vietnam. Thais are simply asking why they, like Singaporeans who trade $200m a year, should not have more unofficial contact with Hanoi. Officials point out that since announcing a new investment code in December 1987 *Hanoi claims to have hosted* over 1,000 trade visits from all countries.

Advisers to Mr Chatichai and Mr Siddhi also believe Thailand may now be able to play a more active role in a solution to Kampuchea. They recognise no solution will work unless the sponsors of the conflict – the Soviet Union behind the Vietnamese-backed Hun Sen, *and the Chinese* behind the Khmer Rouge – back a solution, possibly at their first Sino-Soviet summit meeting next year. But the Thai officials say that since Mr Chatichai's "battlefield into marketplace" speech, *Vietnam* has put out more feelers to Bangkok.

Thailand might have an as yet undefined role as intermediary allowing Vietnam to save face by not having to accept either a Soviet or United Nations *imposed solution*, the officials say.

Bilaterally, Thailand's relations with China have rarely been better and are likely to get stronger under the personal supervision of Mr Chati*chai, who was Foreign Minister* when Thailand resumed relations with China in the 1970s. There was disagreement earlier this year over an Asean addition to the annual UN resolution that for the first time condemned the past activities of the Khmer Rouge rather than simply calling for Vietnamese troop withdrawals. But this was clearly forgotten when Mr *Li* Peng, the Chinese Premier, visited Bangkok last month on his first foreign visit.

Chinese sales of tanks, air force jets and submarines are *in the pipeline as* is work on a stockpile of Chinese weapons and spare parts on Thai soil.

With the Soviet Union, Thailand has responded favourably to Mr Michael Gorbachev's post-Vladivostok efforts to improve relations *in the region* but remains sceptical that Moscow is yet offering anything worthwhile. The visit of Mr Prem and top trade officials to Moscow and eastern Europe in May this year was in line with Thai efforts to maintain good relations on all sides and with broader moves to diversify *markets rather than a sign* of an imminent Soviet breakthrough, analysts say.

As dependence on exports to the US increases, diversification of markets becomes more pressing, especially as Washington has adopted a tough posture on Thailand's intellectual property rights, pharma*ceutical patents and trade lib*eralisation policies.

Most immediately, the US will decide on December 15 whether to remove Thailand's generalised system of preference privileges in response to what *it sees as Thai* foot-dragging on these issues. Students and some politicians, more than government officials, say this is heavy-handed US interference in national affairs. The issues are likely to remain an irritant. Washington is probably not, however, treating Thailand any differently to *South Korea or Japan, two* other good allies, over trade issues other than perhaps confronting Thais earlier in their country's development with US views of international responsibilities.

Where Thailand nearly got its reddest face internationally was in its dealings with the military coup leaders in Burma who nominally took over on September 18. Most other powers are maintaining a distance from the Saw Maung regime after months of bloody suppression of a popular uprising. But Thailand's deputy foreign minister last month came within a hair's breadth of making the first official visit to Rangoon to discuss trade that could have greatly helped provide the regime with desperately needed foreign exchange.

Adverse newspaper comment and public opinion postponed the trip but in Bangkok's view the timing was only slightly wrong. As one Thai Foreign Ministry spokesman said: "In business if you are the first in you have the advantage, if everyone else is in *there* you lose it."

In the case of Burma, concern about the western border is probably as important as trade. The last thing Thailand wants now is an influx of political or economic refugees from Burma.

Richard Gourlay

Peter Ungphakorn looks at the economic climate

A flood of investors as growth figures soar

THE NATIONAL Economic and Social Development Board, Thailand's planning agency, has increased its forecast of economic growth three times in 1988. It now believes that by the end of the year gross domestic product will have expanded by more than 10 per cent, *boosted by continued* good export performance.

Repeated upward revisions of growth and export figures have contributed to an unprecedented mood of optimism that is fuelled by Thailand's rise to new heights of popularity for investors and tourists – and to the covers of Time and Newsweek. It is already banal to describe Thailand as the "Fifth Tiger of the East".

Yet the signs that Thailand will end up something more than the flavour of the month are good. Exports continue to surge. Perhaps more importantly, they are broad-ranging, from textiles and garments to rice and frozen chicken, from jewellery *and computer parts* to tapioca and canned seafood.

Investment continues to flood in, mainly from Japan and Taiwan, and this year also from South Korea. Applications from Thai, foreign and joint venture *companies for* Board of Investment promotions have more than doubled this year to an expected 2,000 projects worth more than Baht 400bn. Between January and August, foreign direct investment accounted for $764m, according to the Bank of Thailand, compared with $488m for the whole of 1987.

*However, the rapid expan*sion has left the infrastructure bursting at the seams with congestion building up on highways and at ports and telephone exchanges.

Economists warn that possible *trade balance* and current account problems lie ahead, although present deficits are

The infrastructure is bursting at the seams

considered manageable, particularly because they are caused by imports of machinery and raw *materials*.

The rate of inflation has crept up close to 5 per cent this year with higher agricultural prices, interest rates and costs of importing yen-denominated goods. But oil prices remain *low, easing the import bill as* well as inflation.

Meanwhile, the Thai Ambassador to Washington recently urged his compatriots to stop beating the drum on Thailand becoming the next newly-industrialising country for fear of attracting the attention of protectionists on Capitol Hill.

Many of the problems appear to be soluble. Continued cautious fiscal policies and this year's almost unprecedented growth caused government revenue for fiscal 1988, which ended on September 30, to overshoot the Baht 199.5bn target by Baht 88.7bn, putting the budget unexpectedly in sur*plus, by Baht 48.6bn*, for the first time in decades.

The government has taken the opportunity to pay back some of its debt ahead of schedule, although negotiations with the World Bank for *prepayment of loans bearing* the highest interest rates have stalled – the Bank is talking about a prepayment penalty fee.

But foreign debt was never a serious problem except for a brief period in 1986 when repayment and interest commitments approached 30 per cent of export earnings.

The surge in revenue has provided the government with the opportunity of increasing investment, particularly in much-needed infrastructure projects.

But Mr Pramual Sabhavasu, the new Finance Minister, is apparently determined to continue to keep domestic and foreign borrowing to a minimum. He appeared stung by initial criticisms of his lack of knowledge in fiscal and monetary affairs and speculation that he would yield to some of his hun*grier cabinet colleagues*.

The Baht 285.5bn budget for fiscal 1988, still going through parliament, envisages a smaller deficit of Baht 23bn (1.5 per cent of GDP) than the Baht 44bn planned for 1987, although the surplus that eventually emerged is unlikely to be repeated.

Mr Pramual has so far also refused to raise the annual ceiling of $1bn on new government foreign borrowing, even though many economists believe $1.2bn could be handled safely.

Continuing the private enterprise orientation of its predecessors, the new government is seeking private sector participation in the construction and operation of an elevated railway for Bangkok, new or expanded highways, ports and other projects.

The result of the investment *should* be an easing of congestion over the next few years, as well as further conversion of capital into production, particularly as the development programme on the eastern seaboard reaches fruition.

The programme includes a deepsea port, industrial estate and export processing zone at Laem Chabang, 100 km south*east of Bangkok*, and petrochemicals complex and industrial estate at Mab Ta Put, about 100 km beyond, where 530m cubic ft of natural gas is piped ashore from the Gulf of Thailand daily. Still unknown *is whether the government's* investment decisions and selection of companies for the pro-

After Gen Prem quit, ministers attacked the planning board

jects will be made honestly.

The fears are that Gen Prem's successor, Gen Chatichai *Choonhavan*, may have great difficulty controlling a five-party coalition with internal divisions even in his own Chat Thai party. At a press conference last month the Prime Minister ducked a question on how he would tackle corruption in the cabinet.

Corruption does not necessarily destroy strong economic performance, as the South Koreans have found. But morality aside, unwise deals (corruption is rarely proved) can cause disruption. Shortly before the election, Gen Prem was forced to cancel a monopoly granted to Bangkok Cranase, a company owned by the family of one of Gen Chatichai's leading party members, for loading and unloading containers at the port of Bangkok.

The monopoly, which prevented ships using their own on-board cranes, caused lengthy queues at the port and a few dropped containers because, critics said, the equipment was not up to the job.

Gen Prem, recognising that economic policy was not one of his strengths, relied on his technocrats although he is said *to have taken a close interest* in what they recommended. The NESDB, in particular, took on a powerful role, sometimes vetoing ministers' pet projects.

Freed from Gen Prem's leadership, a number of ministers launched a bitter attack on the planning board within days of the new government's appoint*ment, threatening to reduce its* role to technical advice. An uneasy compromise appears to have been struck as Gen Chatichai and some of his cabinet seem to have realised that the technocrats are still needed.

Also being watched are the roles of the Board of Investment and the Bank of Thailand, the latter traditionally jealous of its independence but under political pressure for the way it has handled ailing banks and finance companies.

With or without political pressure, the Board of Investment is revising its policies. Officials want to be more selec*tive in the projects they sup*port to encourage industrial location in rural areas – a new scale of incentives comes into force on January 1 – and avoid industrial domination by footloose foreign investors.

In general, the Prem and Chatichai governments' solution to rural poverty has concentrated on rural industry. No significant answer has been found to the subsidies and overproduction of the industrial nations that have contributed to low prices, although critics say much more could be spent on agricultural research and extension work.

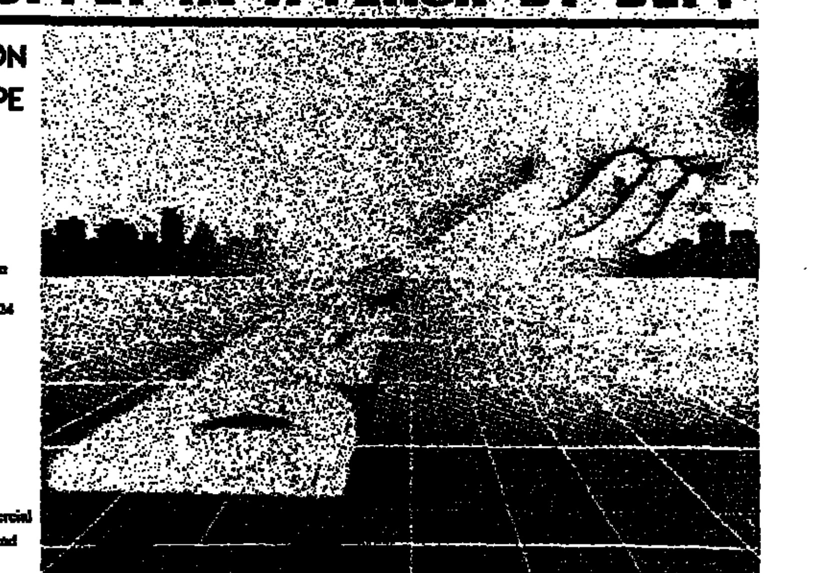
This year, with world farm prices unusually strong, some *prosperity has spread to the* 30m rural inhabitants, providing the opportunity for a strengthening in domestic demand to supplement the export-oriented economy.

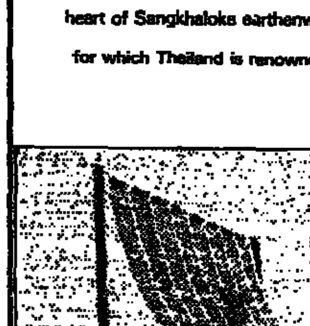
But pockets of severe poverty remain, particularly in rural parts of the north-east.

For urban workers, the Chatichai government has granted trade unions an increase in the *minimum daily wage*

Another response has to allow *cuts of about 5 per cent* in government-controlled oil prices.

The Chatichai government can afford to be generous to itself and its electorate. The real test of its mettle will come if there is a global slowdown.





There are too few issues, so volume remains low

Market loses its glamour

IN SEPTEMBER Thailand's Porntip Nakhirunkanok, the newly crowned Miss Universe, returned triumphant to Bangkok and swept a gleeful nation off its feet. But her presence at the launch of a $155m Thai Prime Fund, backed by Nomura Securities of Japan, could not excite a stock market that had been languishing since August.

Miss Porntip swept on to steal hearts at the United Nations, including that of Mr Javier Perez de Cuellar, the Secretary General, but Thailand's market, once the apple of every international fund manager's eye, has continued to drift both in volume and value terms.

Nomura's Thai Prime Fund, Japan's first sortie onto the Stock Exchange of Thailand (SET), remains perhaps only 10 per cent invested in Thai stocks, brokers in Bangkok say. And land speculation and high interest rates have drawn away local investors.

Languishing is a relative term. The SET index, at around 400, is still up 156 points on the December 11 low it hit after the world stock markets crashed in October last year. At its peak in August this year it was a whisker off the October 1987 record high of 472, a level it had reached after more that tripling its value in a little over a year. However, volumes have dropped off from a first-half daily average of about Baht 774m ($31m), roughly double 1987 volumes, to around Baht 430m ($17m).

In common with stock markets in a number of developing countries, Thailand is suffering from having too few traded issues. The Finance Ministry and SET say they are encouraging companies to join the 140 already listed. But the larger companies which brokers say must appear to feed the demand are not coming to market.

There are no signs that the government plans to sell two oft-cited candidates for privatisation, Thai International, the national airline, and the Electricity Generating Authority of Thailand.

Furthermore, the SET, which acts as the main regulatory body in the absence of a Securities and Exchange Commission, opposes the listing of start-up companies on the grounds that investors are exposed to too much risk.

Brokers say there is little danger of a precipitous slide in the market, despite what appears to be an exodus of local investors, because of the strong underpinning from foreign funds.

Eight Thailand funds are now traded on international exchanges, four of which were launched this year, including the latest Nomura-backed Thai Prime Fund. A $100m fund backed by Swiss Bank Corporation is being launched and will be traded in Europe. If the funds were fully invested they would place $680m in the Thai market, equivalent to about 8 per cent of the market's current capitalisation.

Foreigners are restricted to holding a maximum of 49 and sometimes 25 per cent of Thai companies, but trading through Thailand's Mutual Fund Corporation, which is known as the "market's godfather" because of its size and muscle, can increase these foreign holdings. Foreign fund managers' appetite for Thailand has at least until recently soaked up stock as soon as it becomes available, creating price stability but effectively locking up liquidity in the market long term.

More recently, brokers say fund managers have been diversifying from Thailand to Singapore, either because Thailand's 10 per cent economic growth this year is already reflected in current prices or because the market is going through a phase when fundamentals appear to be playing a minor role.

Supporters of capital market development, like Dr Olarn Chaipravat, the senior vice-president of Siam Commercial Bank, believe the government will have to take a far more active role in encouraging development of the stock market. This would not only feed the foreign fund managers' appetite but reduce company dependence on debt for investment and help finance the country's ballooning trade deficit. Legislation is needed to set up a Securities and Exchange Commission and alter commercial codes of law.

"The government needs to encourage, if not force, large companies to be listed," Dr Olarn says. The biggest boost for new issues will come from the huge infrastructure and industrial projects currently planned.

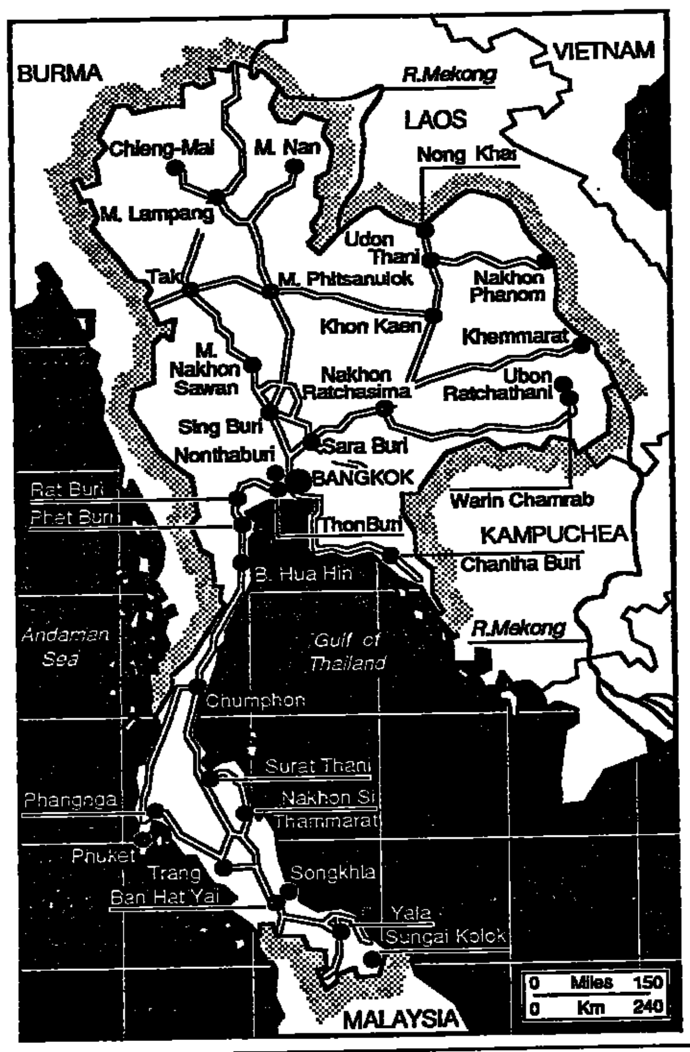
All 10 of the projects in a petrochemical complex, known as NPC2, on the eastern seaboard with a total investment of Baht 22bn ($900m) will have to be listed on the SET. The contracts call for a fifth of the shares to be sold to the public. Similarly, the contract for a mass transit railway system for Bangkok will probably require Baht 8bn ($320m) of capital to be raised locally.

These projects offer only long-term succour to the stock market. Brokers expect volume to remain low for much of 1989 – one reason why the stocks of finance companies, which act as brokers, have lost some of their glister. They expect interest to remain concentrated in the 10 main stocks that account for 52 per cent of market capitalisation and include Bangkok Bank, Siam Cement,

Unless, that is, the two Thai girls who recently won major international beauty contests succeed in livening up the market where Miss Porntip failed.

Richard Gourlay

Miss Porntip is not the only thing on these dealers' minds. Trading at the Securities Exchange of Thailand in Bangkok, where the 10 main stocks account for 52 per cent of market capitalisation



BANKING

Caution slows development

THAILAND'S BANKS and finance companies are in better shape today than at any time since the Bank of Thailand stepped in with a major rescue package in 1984.

Three years of boisterous economic growth, the sale of foreclosed land and factories, booming stockbrokers and trading profits coupled with new management are restoring health to most balance sheets and boosting earnings.

However, banking remains one of the least developed sectors in Thailand. It belongs in a category of issues titled "if left unattended will hinder Thailand's transition to newly industrialised country status," along with the overstretched ports, roads, telephones and electricity generating capacity.

Other, more immediately pressing issues have distracted attention from the sort of changes needed in the capital markets, banking and securities industries to make that transition smoothly, bankers say.

Thailand has more than 100 finance companies and 30 commercial banks, 15 of which are foreign-owned and only allowed to operate one branch. The finance companies are often family controlled, are not allowed to take deposits although they issue promissory notes, can operate as securities brokers and primarily make consumer loans. The Bank of Thailand still controls 15 of these finance companies and the four banks it took control of in 1984 when imprudent and sometimes fraudulent lending triggered a crisis.

In 1987 profits for many of the banks leapt. Bangkok Bank, the market leader, notched up an increase in gross profits of 70 per cent, a performance matched by a number of other large banks. Using the breathing space these earnings afforded, the Bank of Thailand has pushed for greater loan loss provisions and forced banks to increase capital to cover bad loans. So the banks, which have total assets of Baht 40.3bn ($1.6bn), had to boost their capital base from Baht 12bn to Baht 52bn. Analysts say significant additional loss provisions should still be made.

This year demand for investment and consumer loans has outstripped the banks' ability to supply, suggesting strong growth in earnings can be expected again. Commercial bank lending rose nearly 30 per cent to $3.2bn in the year to September, while domestic credit rose by 18 per cent.

However, there has been intense competition among banks and finance companies for increasingly scarce funding, added to which the Bank of Thailand has maintained a tight hold on liquidity. The spread between the rate that banks offer depositors – now at its officially set ceiling of 9.5 per cent – and short-term interest rates, at which most companies still borrow, has narrowed to less than 2 per cent because of the banks' quest to maintain market share. As a result, there has been a sharp increase in bank funding offshore.

The competitive paring of interest spreads can only hinder the return to financial stability of the four banks remaining in government hands: Krung Thai bank, First Bangkok City Bank, Bangkok Metropolitan Bank and Siam City Bank. It will also keep life tough for the smaller banks.

The Bank of Thailand has kept a tight hold on liquidity, while the paring of interest spreads can only hinder the return to financial stability of the four banks still in government hands

The Thai appetite for competition has not stretched to allowing foreign banks a larger role, a move that central bank officials and independent banking analysts believe could greatly help increase the industry's efficiency.

Citibank, for example, had to withdraw a planned deposit rate increase earlier this year under severe pressure from Thai banks. And Mr Pramual Sabhavasu, the new Finance Minister, appears to have shelved Bank of Thailand plans to allow the sale of ailing finance companies to foreign banks. Apart from increasing their outlets, the same foreign banks have an eye on the finance companies' security broking licences.

Nor has the Finance Ministry identified development of more capital market instruments as a priority, bankers say. A recent decision that the Industrial Finance Corporation of Thailand, one of the few institutions to lend up to 15 years, must cover around Baht 6bn of its unrealised exchange losses without the assistance of the Finance Ministry damages chances of developing longer-term sources of capital. Bonds and debentures are issued by some quoted companies but the natural markets for these instruments – pension funds and insurance companies – are still developing in Thailand.

The bills of exchange market is also little used because of an illiquid secondary market. As a result, most lending is done through overdrafts that are perpetually rolled over and funded on an equally short-term basis.

Capital market development has inadvertently become a casualty of caution as concern with an overheating economy, inflation and the ballooning trade deficit takes priority. This caution led to a $750m foreign debt repayment this year rather than increased infrastructure spending. And prepayment of government bonds throughout the year has removed some of the capital market's already thin long-term liquidity.

Likewise, development of the stock market is moving slowly. High interest rates and land speculation have contributed to the market's lacklustre performance in recent months. But although the Securities Exchange of Thailand and the Finance Ministry encourage new listings, the recent decision that Thai International and Thai Oil will not be privatised has disappointed scrip-hungry fund managers who are clamouring for big new listed names.

Thai caution sometimes reflects a charming, wide-eyed wonder that such electric economic development is happening in the country. Some analysts like Mr Olarn Chaipravat, executive vice-president of Siam Commercial Bank, believe, however, that over-conservatism could be harmful. The government could make more infrastructure investment, with the private sector, and take steps that would help develop the capital markets and finance the trade deficit without approaching overheating.

"In the first place, the government could now safely increase the self-imposed foreign borrowing limit of $1bn a year as long as the increase finances investment and not consumption," says Mr Olarn. He believes Thailand can still avoid the Korean development pattern which led to dangerously high dependence on debt rather than equity.

But before steps are taken to avoid dependence on debt-financed growth, the capital market and banking sectors will need to move up the government's list of priorities.

Richard Gourlay

Tiger prawns...illegal logging...an extraordinary year for agriculture

How rice farmers beat the drought

NIC, NAC, paddy whack...

One of the fashionable debates in Thailand is whether to aim to be a nic or a nac (or naic) - newly industrialising country or a newly "agro-industrialising" country.

Export-oriented manufacturing has overtaken agriculture in gross domestic product, and yet this is an economy endowed with natural resources that can compete with other farming nations in terms of quantity and cost, if not, in some cases, quality. Where Thailand cannot compete is in the subsidies of Europe, the US and Japan that have encouraged overproduction and contributed to depressed prices on world markets.

This year, the debate has been conducted against the background of some extraordinary happenings in Thai agriculture, particularly rice.

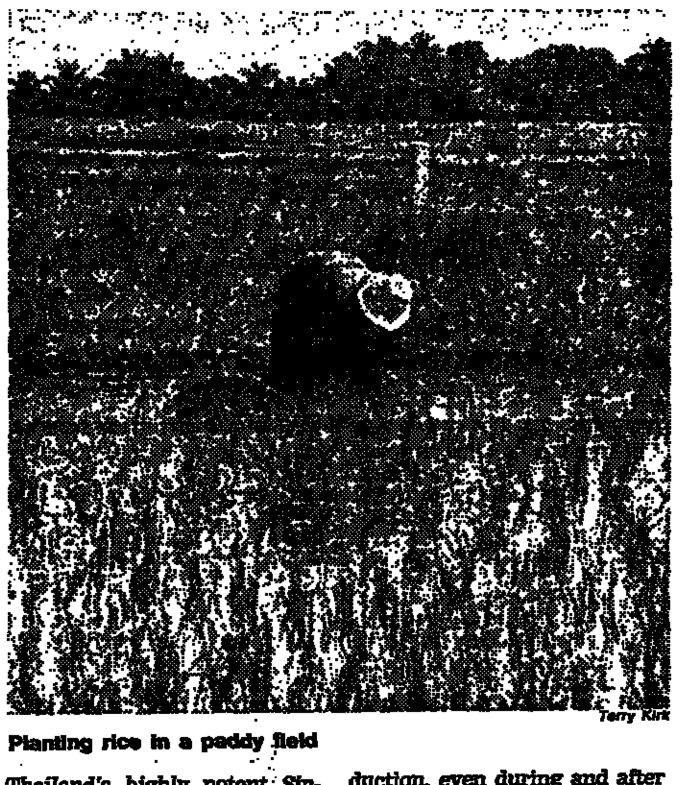
The year started with a scandal. Rice exporters defaulted on contracts signed before they realised production had fallen so much they could supply the rice only at huge losses. But at the end of the year, rice has turned into a modest money-spinner for the rural economy, as has rubber, another traditional product.

The year has also seen the sudden rise of the tiger prawn, as agriculture continues its diversification. And increasing conflict between the interests of farming, logging and forest conservation was dramatically and tragically reinforced last month when thousands of flood-borne logs tore into villages, killing hundreds.

For some years now, modern agribusiness has been pulling the sector in new directions. For example, Charoen Pokphand, probably Thailand's largest private business group and originally in feedmilling, joined forces with Arbor Acre of the US to supply farmers with breedstock, buying the poultry and pigs - sometimes produced under contract – and is now the country's largest exporter of chicken.

The group examined the sources of its feed ingredients and developed maize seed production and farming. It has agro-industrial joint ventures in Indonesia, participates in motorcycle production in Shanshai and has branched out into manufacturing in Thailand.

Boon Rawd, the maker of Thailand's highly potent Sinsha Beer, has started barley and malt production in the cooler climate of the north.



Terry Kirk

Planting rice in a paddy field

Dairy farming has begun to take off with an advertising campaign that has overcome the Thai dislike of milk and created a rapidly expanding market still served in large part by imports.

And Thai seafood, canned pineapples, and fresh mangoes, durians, papayas and other tropical fruits are increasingly found on supermarket shelves in the industrial countries.

But rice, the emotional heart of Thai farming, has been on a steady decline in terms of earnings. Thailand remains the largest exporting nation, but leading Thai exporters are more enthusiastic about making bicycles or investing in new petrochemicals projects.

Last year saw a rare recovery in rice prices, but it was caused by a drought that hit most Asian exporting countries and few Thai farmers were able to benefit immediately. In Thailand the drought's effect was most severest for the main crop, harvested between December 1987 and February of this year.

Accurate assessments of production, even during and after the harvest, are difficult. But the Thai Agriculture Ministry almost certainly overestimated the size of the main crop, perhaps by 2m tonnes of paddy (unmilled rice). The official figure of 15m tonnes was still 2m down on the normal level.

Most, but not all, exporters were also fooled. By the new year they found that the harvest was not flooding on to the market as expected and prices were rising instead of falling. They faced huge losses on forward sales contracts if they were to buy rice at prevailing prices, and sought renegotiations. Some were successful, others bore the losses, many defaulted and caused an outcry from London brokers.

Analysts, including the US Department of Agriculture, predicted that Thailand's export volume would be halved to about 2m tonnes of milled rice for calendar 1988, and the US would become the largest exporter.

Thai farmers had other ideas. With prices at record levels, they were determined to plant as much as they could during the dry season. They successfully forced record harvests out of the baked soil – with a little help from politics and nature.

The farmers ignored warnings from the government that irrigation water would not be supplied to half the main rice-growing provinces of the central region's Chao Phraya River. They invested scarce capital in wells to flood their paddy fields. They preferred to risk a parched crop rather than discover later that they had missed the opportunity because the water was available after all.

More effective than any demonstrations outside Government House, the seedlings quietly growing on the drying land forced a change of heart from the government of Gen Prem Tinsulanonda, still at that time Prime Minister and probably not even considering calling a general election.

For the first time since the first big hydroelectric dam was built in the 1960s, the wishes of the electricity generating authority of Thailand – and implicitly of the modern industrial sector – were over-ruled in favour of the farmers. Despite warnings that the reservoirs were at low levels, more water was released.

The Prem Government could not be seen to backtrack on its frequent avowal of concern for the interests of the rural poor. Perhaps more importantly, the farmers of the central region are more prosperous than those elsewhere and carry more political clout. Certainly the millers in the region are influential, with representatives in parliament and some links to the big exporters.

Then, in early April, normally still in the midst of the dry season, celebrations of Songkran (the Thai new year) were washed out by a downpour. The rains persisted until the end of the monsoon season, and flooding became the problem in some places. The farmers managed to increase their secondary crop by about 50 per cent to more than 3m tonnes.

Prices remained strong and exports continued at a pace likely to take this year's export volume above 4m tonnes, close to a record. The forecast value of Baht 30.2bn will be a record.

Stocks, already believed at low levels, dwindled, some officials warned, to zero. But the warning caused little concern because the new main crop, which farmers are already starting to harvest, is likely to be large.

Rice prices are expected to remain strong despite forecast record world production. The UN Food and Agriculture organisation predicts rice will benefit from the low food stocks and low production of other cereals around the world.

The drought in North America has brought benefits to Thai maize and cassava farmers as well. But uncertainty still remains over long-term prospects for rice prices.

While agribusiness has contributed to increasing yields for some crops, the future development of rice remains open to question. One of Charoen Pokphand's rare failures is reportedly an attempt to set up large-scale "integrated" rice farming in one of Thailand's most fertile areas.

In the past, Thailand has been able to increase agricultural production by increasing acreage rather than yields. That option is no longer available with the serious depletion of forests. Teak has long dropped out of Thailand's top ten exports.

Even tiger prawns, this year's wonder export product, is causing concern among environmentalists because mangrove forests are being cleared to make way for prawn ponds.

Attempts to set up commercial forestry in some areas by planting eucalyptus are meeting increasing resistance from villagers whose traditional woodlets are being cleared away. Commercial logging is becoming increasingly controversial and the government is under fire for ruling on legal grounds that wildlife reserves can be logged by companies – including a state enterprise – granted the concessions before the forests were designated as reserves.

And at the end of November, the country was shocked by television coverage of flash floods in the south, where thousands of logs were swept down hillsides, destroying villages and killing an estimated 400 people.

Officials tried to estimate how many of the logs were legally felled, and how many illegally. But the government is now under pressure to revise its whole forestry policy: legal and illegal logging alike.

Peter Ungphakorn

INDUSTRY

The rising graphs

THAILAND'S industrial output is a series of rising graphs. Soft drinks and cigarettes, textiles, paper, cement, iron and steel, car and motorcycle assembly and integrated circuits, all show the same story.

With a further strong flow of foreign investment this year, the main constraint is becoming Thailand's ability to absorb the increase without the infrastructure cracking under the strain.

What has made Thailand so attractive is the perception that it is essentially a businessman's environment. Many industrialists who have come to the country in the past five to seven years would agree that the starting-up process is not easy and the learning curve extremely sharp. "But whenever I look at the bottom line, what my real costs are compared not just with Europe but also with other developing countries in the region, then I am convinced that this is the place to be and looks like being for the next few years," says one industrialist with four years' experience of Thailand.

He cites land costs, building costs, the cheapness of labour and the strong growth of the domestic market as the four most immediately important characteristics which Thailand has to offer.

The most immediately difficult obstacle to overcome, he says, is the Thai business style which to the outsider can appear bafflingly complex. A local partner, or agent, who actually can deliver his initial promises, is probably vital. He is also the essential guide to ensure that whatever payments are made (as they will assuredly have to be) go to the people who can actually influence decisions.

Foreign diplomats familiar with the commercial process in Thailand also stress that there is no substitute for a lengthy personal commitment to the country in advance of any large investment decision. "It is not a place where you can just come in for a month and expect everything to be settled. You need to see and be seen. A great deal of business activity here depends on family and personal contacts," says one.

It has been a lesson predictably well learned by the Japanese, and increasingly by the Taiwanese and South Koreans, who are spearheading the drive to relocate some of their own labour-intensive industries in Thailand to take advantage of lower wages, the stability of the baht against the dollar and, where appropriate, the benefits of the generalised system of preferences.

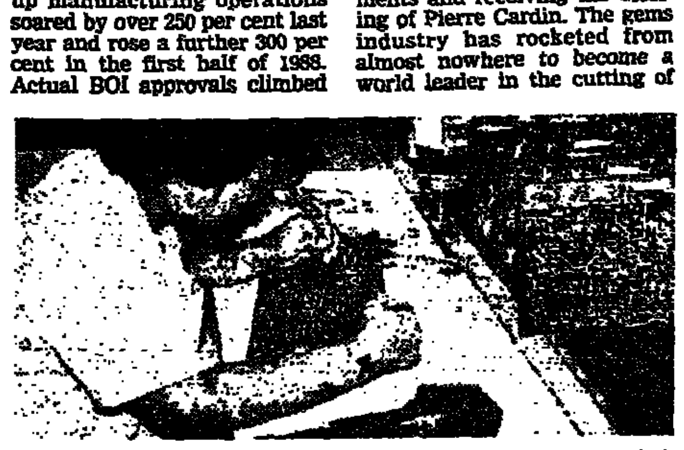
According to the Board of Investment, applications to set up manufacturing operations soared by over 250 per cent last year and rose a further 300 per cent in the first half of 1988. Actual BOI approvals climbed by 90 per cent and 100 per cent respectively.

Thai officials claim that the continuing upward trend shows no sign of being dented by the deficiencies in transport and communications and represents a vote of confidence in the country's capacity to overcome these difficulties.

A slow but significant shift towards inward investment is also occurring. Thailand has largely followed the well-trodden path of industrialisation, starting with the emphasis on import substitution industries, often protected by tariff barriers, and then moving into consumer goods and intermediate industries together with the heavier, capital-intensive projects as represented by the Eastern Seaboard Development Programme which will exploit the natural gas reserves in the Gulf of Thailand.

The strength of domestic and international demand for manufactures in this category is substantial. For example, in the first three months of 1988 motorcycle sales in Thailand shot up by over 60 per cent and local production by 55 per cent. Car sales leapt by 38 per cent while the number of vehicles assembled and part-manufactured rose by 55 per cent, dragging in its wake supplier industries such as tyres whose output grew by a more modest 18 per cent.

Other more export-oriented industries are following a similar pattern. Textiles have maintained an annual growth rate of about 35 per cent with a steadily increasing proportion taken by ready-to-wear garments and receiving the blessing of Pierre Cardin. The gems industry has rocketed from almost nowhere to become a world leader in the cutting of stones and manufacture of jewellery and expects to have some 14 per cent of the world market this year.



Soldering printed circuit boards at Tanin Industrial in Bangkok

Shoe sales to the US shot up by over 500 per cent in 1987, while the output of leather and leather products grew by a more modest 80 per cent.

There have been few more dramatic turnarounds than in household electrical appliances which three years ago appeared to be languishing in the doldrums but in 1987 saw the Board of Investment grant 50 applications for new plants, more than the combined total of the previous 25 years. Much of its output is designated for the domestic market,

The constraints on further industrial growth are not so far acting as a significant deterrent to investment. Issues such as the increasing lack of skilled technical labour and engineering graduates, the congestion at Bangkok port, the threat of protectionism, an underdeveloped local capital market and some underlying political uncertainty, appear to have been discounted, or at least offset against the assumption that Thai pragmatism will suffice until longer-term solutions emerge.

Roger Matthews

FOREIGN TRADE

More markets than the US

THE THAI Prime Minister's much-proclaimed policy of turning the battlefields of Indochina into a marketplace is an indication of how the country's view of its foreign relations has changed.

Trade has become a priority, as Thailand's export earnings, expected to leap 34 per cent this year to Baht 401bn ($15.7bn) and another 30 per cent next year, continue to fuel economic growth. The aim is to sell to anyone who can buy, even if – as in Indochina – purchasing power remains barely more than a potential.

Diversification of markets to avoid over-dependency on the US was probably the main motive behind the visit of Gen Chatichai Choonhavan's predecessor, Gen Prem Tinsulanonda, to the Soviet Union and Hungary shortly before the July general election.

Foreign policy has become increasingly oriented towards economic issues. The Foreign Ministry has had to yield leadership to the Commerce Ministry in negotiations with the US, Thailand's main export market, over import tariff exemptions under the US Generalised System of Preferences (GSP) and other matters.

The talks have entered a critical phase. December 15 is the deadline set by President Reagan for Thailand to show progress on protecting American copyrights – for computer software as well as other works – and pharmaceutical patents, and to grant market access to US products. Failing that, Thailand risks losing the GSP concessions.

Meanwhile, the intricacies of the General Agreement on Tariffs and Trade and the Uruguay Round of multilateral trade negotiations are now followed closely in Bangkok, as they are in other developing countries.

Thailand and three of its partners in the Association of South-East Asian Nations (Asean) are active in the Cairns group of agricultural exporting countries pressing in the Uruguay Round for an end to the huge farm subsidies of the European Community, the US and Japan.

And, along with the intense activity on international trade policy issues, this year has been unusual for Thai trade on at least two other counts – the ascendancy of jewellery exports, and the prosperity of agriculture.

The first surprise was the unexpected rise of gems and jewellery into second place among the top manufactured exports. With the sector as a whole expected to earn Baht 161bn this year, up 34.8 per cent over 1987, the value of gems and jewellery could reach Baht 25bn, up 27 per cent.

Garments head the list of manufactured exports at Baht 47bn. Other items are fabrics, integrated circuits, shoes, and computer parts and components. Non-manufactured exports include rice, rubber, tapioca, sugar, seafood and frozen chicken.

Tourism is enjoying continued prosperity from last year's Visit Thailand year promotion. Almost 4m visitors are expected to bring in Baht 57.2bn in foreign exchange this year, topping any of the individual categories in the other sectors.

The second surprise was the strength of agricultural exports, especially rice. Everyone knew prices would be good because drought struck 1987-88 production in a broad swathe from Pakistan to the Philippines. Few realised how much Thailand could eventually export.

The government has been forced to start tightening up copyright protection

As if from nowhere, farmers produced a record secondary, dry season crop of more than 3m tonnes of paddy despite a threat of continued shortage of irrigation. Early rain aided their efforts. Exporters continued to accept orders which some thought might force Thailand to import in order to fulfil export commitments.

By the end of the year, Thailand is expected to have exported more than 4m tonnes of milled rice. The value, estimated at Baht 30.2bn, will break records because of the strength of world prices, a much needed turnaround for Thailand's rural sector which has long suffered from price depression.

One reason for the previous low rice prices was the 1985 US Farm Act which in 1986-87, its first effective year, handed out $1bn in subsidies to 20,000 American rice farmers.

Unable to match that kind of money for its 5m-10m farming families, in July 1986 Thailand hosted a meeting of senior officials from 14 non-subsidising agricultural exporting countries which officially formed an alliance the following month in Cairns, Australia.

Two years later, Thai officials and some of their colleagues in the Cairns group are worried about the possible failure of the December 5-7 mid-term review of the Uruguay Round in Montreal. They are discouraged by what they see as growing protectionism and a weakening resolve among industrial countries to tackle agriculture – partly because this year's North American drought and higher world prices have reduced subsidy bills in the major countries.

Thai interest is no longer focused on agriculture alone, however. Pressure from the US in particular, has forced the Thai government to start tightening up protection for copyrights, trade marks and patents.

This is happening with considerable reluctance on Thailand's part, although the government is said to agree that Thai penalties for trademark infringements should be tightened. If passed, amendment to the trademark law could end Bangkok's position as one of the major centres for counterfeit designer garments and other goods.

Thai officials say rules on intellectual property, services and investment should be set multilaterally, as in Gatt. They object to bilateral pressure on these issues leading to harassment in merchandise trade.

The pressure from the US has backfired somewhat, as far as diplomatic relations are concerned. The debates on proposed legislation and administrative measures are complex. They are beyond the grasp of much of public opinion already prone to nationalistic indignation whenever Thailand's traditional superpower ally seems to be playing Big Brother.

One issue is whether American calls for copyright protection will be satisfied – without any action needed in Thailand – when the US signs the Berne Convention on copyright.

In April, the Prem government successfully pushed through parliament an amendment to the copyright law that would have covered US works. But Gen Prem immediately dissolved the House of Representatives because of a rebellion by MPs who saw the opportunity of creating trouble for the government on an issue that few understood.

The dissolution killed the bill which had not yet received the royal signature. It also effectively ended eight years with Prem at the helm.

The copyright issue has now been transformed since the US Congress ratified the Berne Convention. The question now is whether the wording of Thai law backdates protection for American works.

Other issues of contention between the two arise from Thailand's increasing popularity as a manufacturing base for companies from more advanced East Asian economies.

They include anti-subsidy and anti-dumping actions on miniature bearings made by Minebea, the Japanese group; and pressure on Thailand "voluntarily" to restrain its exports of steel pipes to the US. Under the new US omnibus Trade Act the pipes, despite processing in Thailand, are defined as steel originating in countries such as South Korea and Japan that have agreed to limit their exports to the US.

Despite Thai accusations of protectionism, however, US officials point out that Thai exports have soared by about 30 per cent in 1987 and probably by more this year. Nevertheless, compared with some of its neighbours, Thailand is less dependent on the US, which takes 20 per cent of its exports, Japan accounts for 15 per cent of Thai exports, but supplies 25 per cent of imports.

Clouds on the horizon include possible falls in agricultural prices if world cereal production recovers, and possible side-effects from the protectionist war that the new US Congress could force the Bush Administration to wage against Asian exporters.

But, for the time being, Thai businesses and their Asian partners are selling for all they are worth. And that means to neighbouring Laos, Vietnam and Burma, as well as North America, Japan and the EC.

Peter Ungphakorn

LEGAL COLUMN

Growing band of firms tunes in to Far East

By David Churchill

WHILE 1992 and its implications for the legal profession in Europe may be hogging all the headlines at present, some firms are continuing to look further afield in their quest for new markets.

Freshfields, for example, has just joined the growing band of leading City firms which are studying the opportunities in the Far East. In addition to its offices in Hong Kong and Singapore, Freshfields is poised to open in Tokyo as well.

Mr Michael MacCabe, Freshfields' managing partner, says: "We expect Japanese investment in Europe to increase significantly in the coming years and anticipate being able to advise Japanese clients through our offices in London and Paris where we advise on English, French, and European Community law.

"Through the office we hope to improve the service to our Japanese clients and to help non-Japanese clients whose activities include contact with Japan."

Freshfields will join a clutch of other leading UK legal firms – including Slaughter & May, Linklaters, and Allen & Overy – which have already taken advantage of the change in Japanese regulations last year to open up in Tokyo.

Restrictions still exist, however, which prevent British firms from either practising law in Japan or even taking on Japanese lawyers as partners to act for them.

Mr MacCabe believes it important none the less for Freshfields to be in Tokyo because of the "development of the trading lines between Japan and the EC as a whole." Consequently, Freshfields is also "actively considering" setting up a Brussels office as well in the near future.

Freshfields plans to operate its Tokyo office under the guidance of Mr Bill Richards, previously head of its specialist financing group.

At the same time Mr James Lawden, a partner who has spent a year working with a Japanese law firm in Tokyo, will head a group in London to support the Tokyo office.

A rather different approach to providing advice for UK companies and individuals on Turkish law has been set up in London by two Turkish lawyers.

Turkey, an associate member of the European Community and keen to become a full member, is viewed as an attractive property investment proposition for those wanting to cash in on the tourism boom in that country.

Mrs Duygu Kuzalti, a member of the Ankara Bar, is the first person to be given permission by the Home Office to act as a Turkish legal consultant in England. Her partner, Miss Aydin Turkan, is a former member of the English Bar who became a member of the Law Society.

Their partnership over the past few years has benefited particularly from Britons who have visited Turkey and who subsequently want to buy property there.

Miss Turkan says the Turkish Embassy in London receives about 10 letters a day from individuals wanting to know how to go about the process of buying in Turkey.

Digital sponsors university chair

THE FIRST university chair of information technology law in Europe is being set up at Queen Mary College in London.

Digital Equipment Company is sponsoring the chair at a cost of almost £500,000 over seven years. The chair has been created within the Centre for Commercial Law Studies and is likely to be filled at the start of the next academic year.

Mr John Boyd, QC, director of legal services at Digital, explains that the company is keen "to foster the development of a legal framework for information technology, such as in the fields of intellectual property rights, electronic funds transfer, and trans-border data flows."

Professor Roy Goode, the centre's director, says the sponsorship will enable the department to "develop a major programme of advanced teaching and research into the legal implications of information technology."

Law Society Finals rapped

CRITICISM of the structure of the Law Society Finals examination has come from a student organisation called the Trainee Solicitors Group.

Mr Richard Henderson, chairman, told a recent legal education seminar at Leeds University that the examination needed radical re-shaping.

He said there was a need to move towards continuous assessment and an open book system enabling students to consult reference materials during the examination.

"If the examination is to test one's ability to work in the way in which a solicitor works in practice, it seems fairly basic to introduce this change towards realism," he said.

The examination should measure the ability to work like a solicitor rather than, as at present, test the candidate's ability to remember.

He commented on "the unfairness inherent in the present system which gives people very little accurate guidance as to their progress and then permits about 40 per cent of candidates to fail at the first attempt".

Television on trial

CROWN COURT, the fictional day-time television series showing a trial in progress, could soon become reality.

The General Council of the Bar's working party into televising court proceedings in England and Wales – set up earlier this year – has just reported on its progress.

The committee has taken evidence from a wide variety of sources in both Britain and overseas and is still monitoring these developments.

Evidence from lawyers and judges in the European Community, Israel, Canada, Australia and New Zealand has already been obtained on the contribution which television makes to the administration of justice in their countries.

This week, moreover, Mr Jonathan Caplan, chairman of the committee, will be discussing the issue with members of the American Bar Association at its annual media conference in Florida.

After the conference, he plans to tour courts in the state to witness at first hand televising courts in action.

Other members of the committee have already been to New York to see the arrangements for televising its courts and to question court administrators.

Mr Caplan reports that "it has been highly instructive to see the evidence of Commonwealth legal systems which, like our own, are adversarial in approach."

He said the committee would be comparing this to the experience of countries such as France and Spain which are based on an inquisitorial system of justice.

"There are some difficult issues to be resolved before we can say whether televising will suit and improve our system of justice," he adds.

"Today's technology reduces the intrusiveness of television, but the delicate balance of the trial process and the interests, particularly of witnesses, jury and the accused, require very careful consideration."

The working party aims to submit its findings to the Bar Council early next year.

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AUTHORISED UNIT TRUSTS

London & Manchester (Tst Mgmt) Ltd (1000)H

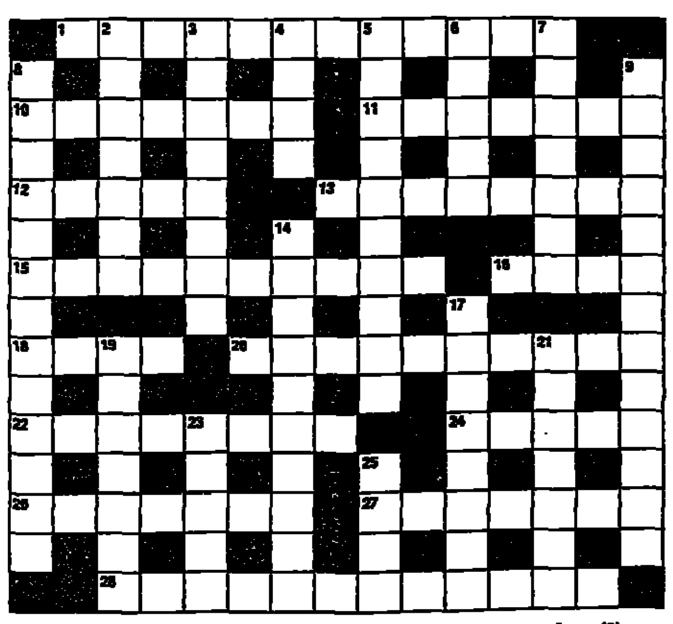
Winslade Park, Exeter EX5 1DS 0392 282673

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5	27.24	27.54xd	29.24	0.9	40828
General	5	46.93	47.13xd	50.03	3.7	40829
Income	5	43.96	44.27	47.00	5.7	40830
International	5	33.57	33.84	35.92	1.0	40831
Japan	5	50.00	50.31	53.41	0.0	40832
Tst of Inv Trusts	5	35.21	35.79	37.99	2.1	40833

JOTTER PAD

CROSSWORD

No. 6,803 Set by HIGHLANDER



ACROSS

1 Echo note with section of orchestra (12)
10 Old ballroom dance with individual pace (3-4)
11 Tropical bird: fifty-one seen in hickory tree (7)
12 Secure turnover with a plant in forest (5)
13 Follow and observe two-hour vigil at sea (8)
15 Expect worker here in France to take hors d'oeuvre (10)
16 Timber in Kent is a bargain (4)
18 Crowd listened to sound (4)
20 Sensing it's gone wrong from unwillingness to pay (10)
22 Take note of the singer's tone quality (8)
24 Prepare one to be joined in matrimony (5)
26 Avenging force seems in disarray (7)
27 Opening one's first letter (7)
28 No sense getting involved with Latin – it's not important (12)

DOWN

2 Cultivated by English member: an insect (7)
3 Arrival on stage door (8)
4 The point about gymnastic training (4)
5 In favour of gentlemanly round-up (10)
6 One of the mate's family, according to the rule (2-3)
7 Horse's lead in racing competition a cravat perhaps (7)
8 Textile group is daydreaming (13)
9 Lowly housemen shuffled around in a way detrimental to health (13)
14 Shape is too unusual to be ideal (10)
17 On Hebridean island Heather needs interpreter (8)
19 Rule about American military people (7)
21 Bill and I ripped up titillating literature (7)
23 Girl in bed has black eyes (5)
25 Long backbone – *no head* (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday December 17.

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.
OFFER PRICE
The price at which units may be bought.
BID PRICE
The price at which units may be sold.
CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation *price in circumstances in which there is a large excess of sellers of units over buyers.*
TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♣ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♠ - 1701 to midnight.
HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.
FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out last Friday.
Other explanatory notes are contained in the last column of the FT Unit Trust information pages.

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Swiss Life Pen Tst Man Co Ltd (1000)H
99-101 London Rd, Sevenoaks 0732 450161

Unit Name	Init. Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Equity Dist	5	319.4	323.8xd	342.6	3.25	41453
Equity Acc	5	415.7	421.4	445.9	3.25	41453
Fixed Int Dist	5	112.9	114.4xd	118.6	8.56	41454
Fixed Int Acc	5	207.9	210.9	218.5	8.56	41455

TSB Unit Trusts (y) (1000)F
Charlton Pl, Andover, Hants. SP10 1RE 0264 63434

Unit Name	Init. Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
TSB American	6	92.06	92.82	98.73	2.15	41457
Do Accum	6	98.81	99.60	105.96	2.15	41458
TSB Brit Growth	6	52.54	52.54	55.89	3.44	41459
Do Accum	6	54.98	54.98	58.49	3.44	41460
TSB European	6	51.00	51.00	54.26	1.07	41461
Do Accum	6	52.39	52.39	55.73	1.07	41462
TSB Extra Income	6	145.63	146.98	156.36	5.93	41463
Do Accum	6	185.39	189.72	202.83	5.93	41464
TSB Smaller Cos	6	51.65	53.72	57.15	1.46	41465
Do Accum	6	52.57	54.68	58.17	1.46	41466
TSB General	6	172.15	173.36	184.37	3.65	41467
Do Accum	6	297.99	300.05	319.15	3.65	41468
TSB Premier Income	5	46.83	47.28xd	49.25	9.32	41469
Do Accum	5	71.89	72.58xd	75.60	9.32	41470
TSB Income	6	256.20	259.15xd	275.69	5.17	41471
Do Accum	6	434.12	440.84xd	468.98	5.17	41472
TSB Pacific	6	207.98	211.24	224.72	0.32	41473
Do Accum	6	216.24	219.63	233.66	0.32	41474
TSB International	6	315.99	319.84xd	340.26	0.87	41475
Do Accum	6	399.28	404.15xd	429.95	0.87	41476
TSB Nat Resources	6	57.24	58.54	62.28	1.72	41477
Do Accum	6	60.67	62.05	66.01	1.72	41478
TSB Slctd Opps	6	76.29	76.29	81.16	2.82	41479
Do Accum	6	87.11	87.11	92.67	2.82	41480

Target Trust Mngrs Ltd (1600)H
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin: 0296 394000 Dealing: 01-379 0860

Unit Name	Init. Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Eagle ♦	5	58.68	58.68xd	62.72	3.33	41482
Australia	5	6.756	6.756	7.229	0.10	–
Commodity	5	72.05	72.05xd	77.75	0.64	41484
Convertible	5	139.4	139.4xd	150.5	5.08	41485
Equity	5	147.5	147.8	159.3	3.28	41486
Euro Spec Sits	5	80.35	80.95	86.25	1.58	41487
Financial	5	29.62	29.62	31.90	2.14	41488
Global Opps Inc	5	53.33	53.33xd	57.41	0.65	41489
Global Opps Acc	5	53.73	53.73	57.84	0.65	41490
Gold Income	5	43.28	43.28xd	46.57	0.00	41491
Gold Acc	5	79.72	79.72	85.78	0.00	41492
Income	5	97.63	99.63xd	107.6	4.72	41493
Japan	5	126.8	126.8	136.6	0.00	41494

Local Authorities Mutual Invest. Tst.*
2 Fore Street, London EC2Y 5AQ 01-588 1815

	Bid Price	Offer Price	Yield Gross	City-line
Property Oct 31	211.95		5.79	40825
Equity Oct 31	714.70		3.98	40826
Fxd Int Sec Oct 31	100.70		9.98	40827

* Available only to Local Authorities

MIM Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Mngd Pens (Acc)	54.6	58.2	0.80	41007

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	Yield Gross	City-line
Amer Expt Nov 30	36.0	37.7	2.53	41064
Euro Expt Nov 30	40.8	42.8	2.71	41065
Fixed Int Ex Nov 30	49.0	51.3	9.09	–
Japan Expt Nov 30	55.7	58.4xd	0.43	41066
Managed Ex Dec 1	37.9	39.4	4.84	41067
SE Asia Expt Nov 30	33.7	35.3	2.12	41068
Sm Cos Expt Nov 30	42.4	44.5xd	2.85	41069
UK Eqty Ex Nov 30	34.6	36.3	4.6	41070

New Court Property Fund Managers

	Bid Price	Offer Price	Yield Gross	City-line
NC Property	191.9	209.3	–	41205

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	Yield Gross	City-line
PDFM Small Co's Nov 1	815.0	861.0	3.85	41138
Do Accum	842.0	889.0	3.85	41139
PDFM Int Expt Dec 1	120.0	122.1xd	2.66	41140

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	Yield Gross	City-line
(m) Exempt	96.10	97.33	2.49	40172

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)

	Bid Price	Offer Price	Yield Gross	City-line
AA Friendly Sy Nov 11		143.41	–	41607

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

	Bid Price	Offer Price	Yield Gross	City-line
Prop. Ser. 1	261.1	294.9	–	41608
Equity Ser. 1	110.5	116.4	–	41609
Prop. Acc. Ser 2	390.0	410.6	–	41610

[illegible]

Barclays Life Assur. Co Ltd – Contd.

[illegible]

Black Horse Life Ass. Co Ltd
Mountbatten Hse, Chatham, Kent.

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

Continued on next page

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Norwich Union Asset Management Ltd

PO Box 124, Norwich NR1 1JS 0603 683986

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	53.2	56.0	–	43191
Stock Market Mngd Fund	50.7	53.3	–	43192
Equity Fund	53.8	56.7	–	43193
International Fund	47.9	50.5	–	43194
European Fund	48.6	51.2	–	43195
North American Fund	41.6	43.8	–	43196
Pacific Fund	60.5	63.7	–	43197
Property Fund	68.6	72.2	–	43198
Fixed Interest Fund	51.8	54.5	–	43199
Index linked Sec Fund	53.4	56.2	–	43200
Deposit Fund	55.0	57.9	–	43201
NUAM Retirement Plans				
Mixed Fund	57.3	60.3	–	43202
UK Ordinary Share Fd	63.5	66.9	–	43203
International Fund	49.7	52.4	–	43204
Property Fund	67.1	70.6	–	43205
Fixed Interest Fund	56.4	59.3	–	43206
Index Linked Sec Fund	54.8	57.7	–	43207
Deposit Fund	59.3	62.4	–	43208
NUAM (NUF)				
Managed Fund	743.4	782.6	–	43209
Equity Fund	1459.7	1536.6	–	43210
Property Fund	432.0	454.8	–	43211
Fixed Interest Fund	386.5	406.9	–	43212
Deposit Fund	225.1	237.0	–	43213
International Fund	126.0	132.7	–	43214
Index Linked Sec Fund	54.1	57.0	–	43215

Norwich Union Life Insurance Soc.

PO Box 149, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	Yield Gross	City-line
Unitised Pensions				
With Profits Fd	108.69	114.41	–	43216
Managed Fd	115.78	121.87	–	43217
UK Equity Fd	117.53	123.71	–	43218
International Fd	118.13	124.35	–	43219
European Fd	111.05	116.90	–	43220
North American Fd	106.62	112.23	–	43221
Pacific Fd	116.98	123.13	–	43222
Property Fd	122.05	128.47	–	43223
Fixed Int Fd	99.85	105.11	–	43224

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Broker Fund				
Towerhill Mngd Fd Acc	44.1	46.5	–	43447
High Performance	60.0	63.2	–	43448
YRA Executive Fd	76.2	80.3	–	43449
Investment Master		36.4	–	43450
H.F. Speculator Fd		111.7	–	43451
£ High Inc Money Fd		103.4	–	43452
£ Global Growth Fd		103.4	–	43453
PEP Acorn II		100.5	–	–
AAFS Int Man Fund		98.4	–	–
Individual Pension Funds				
UK Equity Acc	198.2	209.1	–	43454
UK Fixed Interest Acc	164.3	173.4	–	43455
Intl Equities Acc	160.4	169.2	–	43456
UK Managed Acc	148.9	156.9	–	43457
Property Acc	189.0	199.4	–	43458
Money Acc	116.0	122.4	–	43459
Special Market Acc	126.6	133.6	–	43460
Japan Equity Acc	224.4	236.8	–	–
North American Acc	99.3	104.8	–	43462
Pacific Acc	129.9	137.1	–	43463
Technology Acc	134.9	142.3	–	43464
Natural Resources Acc	88.6	93.5	–	43465
European Acc	87.0	91.8	–	43467
Residential Prop Acc	122.6	129.4	–	43468
Swiss Equities Acc	30.6	32.3	–	43469
Hong Kong Acc	42.3	44.7	–	43470
UK High Inc Eqs Acc	63.3	66.8	–	43471
Int Fixed Interest Acc	50.4	53.2	–	–
Int Managed Acc	46.5	49.0	–	–
Broker Fund				
Towerhill Mngd Pen Acc	36.9	38.9	–	43472
Group Pension Funds				
Equity Acc	588.3	606.5	–	43473
Fixed Interest Acc	487.3	502.4	–	43474
Managed Acc	101.2	103.2	–	43475

Provident Life Assoc Ltd

Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	City-line
Unit Fund	886.3	930.6	–	43476
Equity Fund	195.2	205.0	–	43477

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

UK LISTED

IoM AUTHORISED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
2,250	Treas 11½pc 1989	99[illegible]	12.93	18.7	22 Aug 22 Feb	1291
855	Treas 9½pc Cnv 1989	98[illegible]	12.76	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	96¾	10.73	10.10	15 Nov 15 May	1327
1,400	Treas 10½pc 1989	99[illegible]xd	12.66	7.11	14 Dec 14 Jun	1287
2,400	Exch. 10pc 1989	98[illegible]	12.66	27.6	1 Feb 1 Aug	1250
2,000	Exch 11pc 1989	98[illegible]	12.44	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	95[illegible]	10.88	8.9	15 Apr 15 Oct	1329
535	Exch 10¼pcCv '89	98[illegible]	11.74	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	101¼	11.77	8.6	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	99¼	11.70	6.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	100[illegible]	11.81	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	90[illegible]	10.10	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	95½xd	11.52	8.11	15 Dec 15 Jun	1340
1,000	Treas. 8pc Cv 1990 ‡‡	96[illegible]	10.42	9.6	16 Jul 16 Jan	4680
1,887	Treas. 10pcCv 1990	97[illegible]	11.53	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	87[illegible]	9.52	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	100[illegible]	11.47	3.6	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	89[illegible]	10.77	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	86	9.49	7.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	98[illegible]	10.76	6.6	12 Jan 12 Jul	1286
1,550	Exch. 11pc 1991	99[illegible]	11.29	19.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	91[illegible]xd	11.27	3.11	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	104[illegible]	11.07	15.6	22 Jul 22 Jan	1297
1,600	Treas 10pc 1992	97¼	11.07	25.7	21 Aug 21 Feb	1283
1,400	Treas. 8pc 1992 ‡‡	91[illegible]	11.05	6.9	13 Oct 13 Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	98[illegible]	11.02	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	82[illegible]xd	8.95	4.11	11 Dec 11 Jun	1328
1,350	Exch. 12¼pc '92	103[illegible]	11.00	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	107[illegible]	11.04	16.8	22 Mar 22 Sep	1266
950	Treas 8¾pc 1993	91[illegible]	10.87	12.7	18 Aug 18 Feb	–
1,850	Treas 10pc 1993‡‡	97[illegible]	11.76	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993‡‡	105[illegible]	10.87	7.6	14 Jan 14 Jul	1296
600	Funding 6pc 1993‡‡	85[illegible]	9.80	9.8	15 Mar 15 Sep	1276
1,250	Treas 13¾pc 1993‡‡	110[illegible]	10.88	17.10	23 May 23 Nov	[illegible]

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,050	Treas. 8½pc 1994	90[illegible]	10.83	27.6	3 Aug 3 Feb	[illegible]
750	Treas 8½pc 1994 A	90[illegible]	10.85	–	3 Feb 3 Aug	[illegible]
600	Treas 14½pc 1994‡‡	114[illegible]	10.77	26.7	1 Sep 1 Mar	[illegible]
1,100	Exch 13½pc 1994	110[illegible]	10.91	20.9	27 Oct 27 Apr	[illegible]
1,400	Treas. 10pc Ln. 1994‡‡	97[illegible]xd	10.65	2.11	9 Dec 9 Jun	[illegible]
1,550	Exch. 12½pc 1994	106[illegible]	10.90	18.7	22 Feb 22 Aug	[illegible]
1,600	Treas 9pc 1994‡‡	93[illegible]	10.52	11.10	17 May 17 Nov	[illegible]
2,350	Treas 12pc 1995	105[illegible]	10.80	20.6	25 Jul 25 Jan	[illegible]
229	Exch 3pc Gas 90-95	80	6.92	26.9	1 Nov 1 May	[illegible]
2,100	Exch. 10¼pc 1995	98[illegible]	10.66	14.6	21 Jan 21 Jul	[illegible]
1,000	Treas 12¾pc 1995‡‡	110[illegible]	10.62	10.10	15 May 15 Nov	[illegible]
900	Treas. 14pc '96	115[illegible]	10.74	15.6	22 Jul 22 Jan	[illegible]
750	Treas. 9pc 1992-96‡‡	93[illegible]	10.27	9.8	15 Sep 15 Mar	[illegible]

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £
359	Consols 4pc	44
1,909	War Loan 3½pc‡‡	39[illegible]
154	Conv. 3½pc '61 Aft.	61[illegible]
56	Treas. 3pc '66 Aft.	32[illegible]
276	Consols 2½pc	27[illegible]
475	Treas. 2½pc	27[illegible]

Index-Linked

Amount £m	Stock (b)	Price £	Red. Yld. (**)
500	Treas 2pc IL '90(84.6)	123[illegible]	3.44
650	Do. 2pc '92‡‡(97.8)	104¼	3.45
400	Do. 2 '94 (102.9)	95[illegible]	3.62
1,000	Do. 2pc '96(67.9)	140¼	3.58
900	Do 2½pc '01(78.3)	119[illegible]	3.71
800	Do. 2½pc '03(78.8)	116[illegible]	3.75
1,200	Do. 2pc '06(69.5)	118[illegible]	3.76
950	Do. 2½pc '09(78.8)	111[illegible]	3.75
1,350	Do. 2½pc '11(74.6)	115[illegible]	3.74
1,100	Do. 2½pc '13(89.2)	96¼	3.72
1,700	Do. 2½pc '16(81.6)	103[illegible]	3.68
1,400	Do. 2½pc '20(83.0)	101[illegible]	3.61
900	Do. 2½pc '24‡‡(97.7)	85[illegible]	3.56

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for March 1988:104.1 and for October 1988:109.5

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

هكذا من الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
54.4	Hi-Tec Sports	140	13.6	3.4	17.10	June Dec	3112
13.7	Hat'l Media Cons. 5p	18	–	–	9'85	–	2483
15.1	Holland's Hldgs 2p	71	†2.85	5.4	31.10	Nov June	5066
40.1	Kunick 10p	41	†1.0	3.3	23.5	Mar. Jul.	4686
136.6	LWT 5p	160xd	5.7	4.7	28.11	Jan April	3233
155.1	LandLeisure 10p	366	†8.0	2.9	4.7	October	3134
49.6	Leisure Inv 10p	89	1.75	2.7	7.3	January	3151
33.6	Leisuretime Int. 10p	83	–	–	13.9	Jan Jul	3152
53.4	Marina Dev. 50p	358	m2.0	0.7	19.9	November	3286
507.1	Mecca Leisure 10p	164	K4.5	3.7	18.7	Mar Sept	3325
9.06	Medminster 10p	118	3.67	4.1	28.11	Apr. Dec.	3329
86.5	Midsummer Leis 10p	171	†1.6	1.2	23.5	February	3384
28.2	Miss World 10p	431	8.0	2.5	31.10	Oct May	3394
11.5	Moliture Vision 50p	42	–	–	9'86	–	4598
21.5	Noble Raredon 5p	145	b1.33	1.2	–	–	2713
41.7	Omaborg Inv NZ50.5	28	Q2c	9.5	–	–	–
10.7	Oriel Ex Bhs 58.725	108	–	–	1'84	–	–
74.1	Owners Abroad 5p	86	†2.1	3.3	21.3	May	3574
1.56	Pavilion Leisure 10p	130	–	–	–	–	3611
13.4	P'dilly Radio NV 5p	168	3.25	2.6	15.8	Apr Sept	3657
51.0	Pickwick	228	†2.6	1.5	19.9	Sept Mar	3658
519.0	Pleasurama 5p	239	†16.0	3.3	5.9	Oct. Jul.	3676
160.4	Do. 7pcCvCalledPf	223	7%	4.2	8.2	Sept. Mar.	3677
44.7	Prestwich	128	1.25	1.3	14.11	Apr Nov	3716
5.58	Prism Leisure 10p	142	4.46	4.2	1.8	Feb Sept	3724
62.9	Quadrant Group 10p	221	F3.6	2.2	17.10	Jan July	3737
7.44	Radio City 'A' NV	398	6.0	–	12'84	–	3755
14.3	Radio Clyde	245xd	5.75	3.1	28.11	Jan July	3756
56.7	Really Useful Grp 5p	512	15.0	3.9	3.10	May Dec	3788
47.5	Saga Group 20p	295	†4.6	2.6	1.8	Apr. Nov.	3903
5.67	Scott. Ice Rink 2½p	848	–	–	–	April	5075
40.6	Scott. TV 10p	364	†17.0	–	31.10	Dec May	3965
–	SelecTV 10p	12	–	–	–	–	3991
5.61	Spectrum 5p	32	–	–	–	–	4072
42.4	Stanley Leisure	253	3.6	1.9	1.8	Feb. Sept.	4097
5.69	Sunset & Vine 5p	123	L2.4	2.6	–	–	–
14.0	TSW 5p	67	3.15	6.3	17.10	May Nov	4322
97.4	TV-am 5p	148	†4.5	4.1	3.10	Dec. May	4162

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	Petrofina SA	£194	BFr380	4.2	22.5	–	–
[illegible]	Petrogen Petroleum	8½	†	–	–	–	3647
[illegible]	Pict. Pet. 5p	106	–	–	–	–	3659
[illegible]	Premier Cons. 5p	52¼	–	–	–	–	3711
[illegible]	Ranger Oil	281	–	–	–	–	3770
[illegible]	Royal Dutch Fl.10	£61¾	[illegible]	5.8	19.9	Sept June	3872
[illegible]	Sandpiper Oil	9	–	–	–	–	–
[illegible]	Santos A0.25c	158	hQ17.3c	5.5	10.4	Oct May	3916

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	Southern Res.	16	–	–	–	–	4062
–	Southern Ventures 25c.	5	‡Q0.5c	5.1	–	–	4063
–	Spargos MiningNL	5½	Q1c	8.8	–	August	–
–	Swan Res 20c	2½	–	–	–	–	4148
–	West Coast 25c	4	–	–	–	–	4462
1,797.3	Westn. Mining 50c.	214	Q20c	4.5	24.10	May Dec	4479
–	Whim Creek 10c	81	Q11c	7.8	–	–	4486

Tins

Miscellaneous

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
6.00	Propeller 1p	48	–	–	–	–	5228
2.48	Rentaminster 5p	61	a1.0	2.2	–	–	1505
8.85	Royal Sovereign 10p	200	†4.6	3.1	3.10	May Nov	5062
1.44	Scott Pickford 10p	28½	3.1	20.2	–	–	3968
6.67	Seacon Hldgs	96	Z1.0	1.4	19.9	October	5152
0.87	Sonic Tape 2½p	7	n–	–	–	–	4625
5.52	Staks Hldgs. 5p	20	–	–	–	–	4666
3.92	Swanyard Studios 1p	2¼	n–	–	–	–	4647
25.1	Takare	288	b1.0	0.5	–	–	4248
3.25	Tomorrows Leisure 20p	29	–	–	–	–	4886
13.1	Tullow Oil 10p	21	–	–	–	–	4362
4.51	UPL Group 10p	112xd	L2.41	2.9	28.11	June	4357
7.59	Unit Group	147xd	F7.5	6.8	28.11	Jan July	–
	For Video Tape Recording see Leisure.						
0.84	Wilton Group	5½	–	–	23.11	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✲ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	70	......
Craig & Rose £1 γ	710xd	......
Finlay Pkg. 5p γ	86	......
Holt (Jos) 25p γ	£11¹³⁄₁₆	......
Arnotts γ	375	......
Carrol (P.J.) γ	150	......
Grafton Grp. γ	145	......
Hall (R. & H.)	155	......
Heiton Hldgs. γ	56	–1
Irish Ropes γ	165	......

IRISH

Cap. 8½% Ln. 1991	£99⅝	......
9pc Cap Ln. 1996	£103¼	......
Fin. 13% 97/02	£124¼	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp.	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord.	18
Cadburys	31
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	39
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	5½
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	40

A selection of Options traded is given on the London Stock Exchange Report Page

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Pound can make further short term gains

By Colin Millham

STERLING MAY rise further in the short term, but is likely to fall back against the D-Mark next year. UK inflation will peak in the spring, and interest rates could move higher, but this is by no means certain. This is the general view of City economists at present.

Ms Evelyn Brodie, senior UK economist at Morgan Grenfell, says it is essential the pound does not depreciate in general terms. This probably means sterling will advance to $1.95 against the dollar by the end of next year, even though it will fall to DM3.12 in terms of the D-Mark over the same period. According to Morgan Grenfell this will leave the pound's exchange rate index little changed, at 78.2, compared with Friday's close of 78.5.

Ms Brodie believes it is important that sterling does not fall, because of capacity constraints within the economy. Industry will have problems fulfilling any increase in orders brought about by a more competitive exchange rate, and the main result is likely to be an increase of inflationary pressure, without a strong enough improvement in the trade figures.

Morgan Grenfell forecasts that inflation will peak at around 8 p.c. in the spring, falling to 5.8 p.c. by the fourth quarter. Ms Brodie hopes that interest rates will not be forced any higher, because of the danger of driving the economy into recession.

Mr Neil MacKinnon, senior economist at Chase Manhattan Securities, expects sterling to break through through technical resistance at DM3.23.

He believes there is a danger of higher interest rates, partly because Mr Nigel Lawson, the Chancellor, has nailed is colours firmly to that particular mast.

Mr MacKinnon noted that in order to cut supply growth from 7 p.c. to 3 p.c. - which is necessary to solve the problem of the current account deficit - the Treasury economic model was pointing to base rates of 13 p.c. back in the summer.

Chase Manhattan forecasts that inflation will climb to a high of 8 p.c. in the first quarter, unless base rates rise again, when the retail prices index could touch 9 p.c. It should then decline to 5.5 p.c. in the fourth quarter.

Progress in improving the current account deficit will be slow, falling from £15bn this year to £12bn in 1989.

Sterling may fall back to DM3.12 by the end of next year, as overseas investors respond to a slow down in the economy and lower interest rates.

Mr Stephen Hannah, economist at County NatWest, sees sterling moving as high as DM3.25 in the short term, but suggests it could fall to DM3.00 in the second half of next year.

He says there is a risk of higher interest rates, but thinks base rates will probably hold at 13 p.c. until the Budget. Any further rise could be moving towards overkill, and carries with it the danger of moving the economy into recession.

Inflation will rise in the first three months of next year, which Mr Hannah points out is a time of major pay bargaining. He forecasts that inflation will reach 7.5 p.c.

Mr Mark Cliffe, an economist at Nomura Research Institute, also believes inflation will peak at 7.5 p.c. in the spring, but believes the authorities might get away with no further rises in base rates.

He is not alone in hoping the November trade figures will show an improvement from the record October current account deficit of £2.43bn, and suggests that this should help ease the upward pressure on rates.

Both Nomura Research and Morgan Grenfell forecast a November current account deficit of £1.5bn.

Mr Cliffe suggests that an improvement in the trade figures could lead to strong demand for sterling, but this will be a temporary blip, with the pound falling back to around DM3.00 next year.

£ IN NEW YORK

Dec.2	Close	Previous Close
£ Spot	1.8660-1.8670	1.8530-1.8535
1 month	0.56-0.54pm	0.57-0.54pm
3 months	1.75-1.72pm	1.77-1.74pm
12 months	6.00-5.90pm	6.00-5.90pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.2	Previous
8.30 am	78.2	78.3
9.00 am	78.2	78.3
10.00 am	78.2	78.3
11.00 am	78.2	78.3
Noon	78.3	78.3
1.00 pm	78.2	78.3
2.00 pm	78.3	78.3
3.00 pm	78.5	78.3
4.00 pm	78.5	78.3

CURRENCY RATES

Dec.2	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.738481	0.647642
U.S Dollar	6.50	1.36944	1.19943
Canadian $	8.75	1.62580	1.42553
Austrian Sch.	4	16.6743	14.6127
Belgian Franc	7¼	49.6662	43.5424
Danish Krone	7½	9.13622	8.01221
Deutsche Mark	3½	2.37064	2.07838
Neth.Guilder	4	2.67383	2.34405
French Franc	9½	8.09853	7.09944
Italian Lira	12½	1752.40	1536.17
Japanese Yen	2½	166.318	145.551
Norway Krone	8	8.85754	7.75733
Spanish Peseta	-	155.000	135.716
Swedish Krona	8½	8.23239	7.21999
Swiss Franc	3	1.98706	1.74158
Greek Drach.	20½	197.418	173.006
Irish Punt	-	0.885795	0.776382

*All SDR rates are for Dec.1

CURRENCY MOVEMENTS

[illegible]

OTHER CURRENCIES

[illegible]

*Selling rate

EURO-CURRENCY INTEREST RATES

Dec.2	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	13-12¾	12⅞-12¾	13⅛-13	13¼-13⅛	13⅜-13¼	13⅜-13¼
US Dollar	8½-8⅜	8⅝-8⅜	9⅛-9	9¼-9⅛	9⅜-9¼	9½-9⅜
Can. Dollar	10-9¾	10-9¾	10⅛-10	10⅜-10¼	10⅝-10½	11-10⅞
D. Guilder	5¼-5	5¼-5	5⅜-5¼	5⅝-5½	5⅞-5¾	5⅞-5¾
Sw. Franc	4¼-4	4⅜-4¼	5⅛-4⅞	4⅞-4¾	4⅞-4¾	4⅞-4¾
Deutschmark	4¾-4½	4⅞-4¾	5⅛-5	5⅛-5	5⅜-5¼	5⅝-5½
Fr. Franc	7⅞-7¾	7⅞-7¾	8⅛-7⅞	8⅜-8¼	8⅝-8½	8⅞-8¾
Italian Lire	12-10	12½-11½	12⅛-11⅞	12⅛-11⅞	12-11⅞	12-11⅞
B. Fr. (Fin)	7⅜-7¼	7¼-7⅛	7¼-7⅛	7⅜-7¼	7⅜-7¼	7⅝-7½
B. Fr. (Con.)	7½-7¼	7⅛-7	7⅛-7	7½-7⅜	7½-7⅜	7½-7⅜
Yen	3⅞-3¾	4⅛-3⅞	4⅝-4½	4½-4⅜	4⅝-4½	4⅝-4½
D. Krone	7⅞-7⅝	7⅞-7⅝	8-7⅞	8¼-7⅞	8½-8¼	8⅝-8½
Asian $Sing	8⅝-8⅝	8⅝-8½	9⅛-9⅛	9¼-9⅛	9⅜-9¼	9½-9⅜

Long term Eurodollars; two years 9¾-9½ per cent; three years 9⅞-9⅝ per cent; four years 9⅞-9¾ per cent; five years 9⅞-9⅞ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec.2	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.857	3.210	225.3	10.97	2.693	3.623	2374	2.205	67.30
$	0.539	1	1.729	121.3	5.907	1.450	1.951	1278	1.187	36.24
DM	0.312	0.579	1	70.19	3.417	0.839	1.129	739.6	0.687	20.97
YEN	4.439	8.242	14.25	1000.	48.69	11.95	16.08	10537	9.787	298.7
F Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
H Fl.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
C $	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
B Fr.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

[illegible]

MONEY MARKETS

Rates set on an uncertain path

EURODOLLAR RATES rose ⅛ p.c. on Friday, following release of US employment data, but it was by no means clear whether trends in the economy would soon prompt the Federal Reserve to raise its discount rate.

November non-farm payrolls rose nearly double the amount expected, but the unemployment rate rose surprisingly, and the strong growth in payrolls in October was revised down.

This confusing picture pushed the dollar up sharply, on the headline employment news, but down again on closer analysis of the figures.

Earlier in the week US banks increased their prime lending rates to 10½ p.c. from 10 p.c., in response to higher wholesale rates.

On the other hand pressure for tightening of the Fed's monetary policy appeared to fade on Tuesday when third quarter US Gross National Product growth was revised to 2.6 p.c. from 2.2 p.c. This was not as high as several forecasts, and was below the second quarter figure of 3.0 p.c.

In London three-month sterling interbank finished on Friday at 13⅛ p.c., compared with 12⅞ p.c. at the end of the previous week. Here again there was considerable doubt about whether rates would be forced higher.

UK clearing bank base lending rate 13 per cent from November 25

In Paris pressure for higher interest rates faded as the the French franc held steady against the D-Mark, in spite of poor French trade figures, and labour unrest, led by striking transport workers.

In Frankfurt tight credit conditions at the beginning of the week were purely technical, and there was no surprise when the Bundesbank council left credit policies unchanged on Thursday.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

[illegible]

LONDON MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	FRIDAY DECEMBER 2 1988 US Dollar Index	% Change Since Dec.31 87	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY DECEMBER 1 1988 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988 High	1988 Low	Year ago (approx)
Australia (91)	143.61	+37.1	114.69	109.66	4.95	144.14	115.32	110.01	152.31	91.16	94.13
Austria (17)	97.93	−2.8	78.21	88.15	2.44	98.05	78.45	88.19	100.00	83.72	90.71
Belgium (63)	133.43	+29.4	106.56	119.78	4.22	133.47	106.78	120.13	139.89	99.14	95.08
Canada (125)	121.92	+10.4	97.36	104.83	3.37	122.24	97.80	105.07	128.91	107.06	100.07
Denmark (39)	155.92	+35.0	124.51	141.44	2.14	154.48	123.60	140.83	155.92	111.42	110.24
Finland (26)	139.83	+21.6	111.67	119.82	1.40	139.13	111.31	119.13	139.83	106.78	–
France (130)	110.67	+28.5	88.38	102.59	3.16	110.85	88.69	102.98	112.05	72.77	80.29
West Germany (102)	86.54	+12.0	69.11	77.79	2.40	86.96	69.58	78.33	88.21	67.78	73.00
Hong Kong (46)	111.01	+24.7	88.65	111.20	4.64	110.93	88.76	111.14	111.86	84.90	77.41
Ireland (18)	131.66	+25.7	105.15	119.85	4.20	131.43	105.15	119.71	144.25	104.60	93.50
Italy (98)	86.55	+11.3	69.11	82.67	2.44	86.00	68.81	82.27	86.73	62.99	78.12
Japan (456)	190.45	+34.7	152.09	146.15	0.51	190.01	152.03	146.05	190.75	133.61	137.66
Malaysia (36)	140.08	+25.4	111.87	144.24	2.94	139.89	111.93	144.15	154.17	107.83	97.34
Mexico (13)	178.76	+69.5	142.76	446.50	1.15	178.56	142.87	446.50	182.24	90.07	117.49
Netherland (38)	108.99	+8.7	87.04	97.05	5.08	109.20	87.37	97.39	111.00	95.23	89.39
New Zealand (25)	68.67	−9.8	54.84	56.02	7.04	69.05	55.25	56.61	84.05	64.42	75.28
Norway (25)	128.59	+26.4	102.69	112.97	2.57	126.72	101.39	111.41	132.23	98.55	97.40
Singapore (26)	118.83	+22.1	94.90	106.59	2.55	119.35	95.49	107.33	135.89	97.99	85.29
South Africa (60)	125.75	−5.8	100.43	98.17	4.70	127.95	102.37	99.01	139.07	98.26	140.65
Spain (42)	149.80	+13.0	119.63	128.18	3.19	151.51	121.22	129.64	164.47	130.73	114.52
Sweden (35)	138.17	+39.4	110.34	122.98	2.32	137.56	110.06	122.44	138.17	96.92	91.85
Switzerland (57)	79.18	−5.1	63.23	71.18	2.38	79.20	63.37	71.29	86.75	74.13	75.65
United Kingdom (318)	137.03	+3.4	109.43	109.43	4.82	137.96	110.38	110.38	141.51	120.66	116.06
USA (577)	110.78	+10.2	88.46	110.78	3.68	111.10	88.89	111.10	115.55	99.19	91.21
Europe (1008)	114.39	+9.4	91.35	97.84	3.80	114.82	91.87	98.39	116.61	97.01	94.60
Pacific Basin (680)	185.28	+34.3	147.96	143.08	0.74	184.90	147.94	143.01	185.75	130.81	133.71
Euro-Pacific (1688)	156.90	+25.9	125.30	125.14	1.64	156.85	125.50	125.31	158.08	120.36	118.10
North America (702)	111.36	+10.2	88.93	110.43	3.66	111.69	89.36	110.75	116.07	99.78	91.68
Europe Ex. UK (690)	100.11	+14.9	79.95	90.84	2.99	100.26	80.22	91.13	101.29	80.27	81.29
Pacific Ex. Japan (224)	123.55	+28.4	98.67	104.36	4.79	123.84	99.09	104.64	128.27	87.51	85.96
World Ex. US (1886)	155.38	+25.1	124.09	124.33	1.72	155.37	124.31	124.51	156.39	120.26	117.71
World Ex. UK (2145)	138.41	+22.1	110.53	120.81	2.06	138.44	110.77	120.95	138.58	111.77	106.62
World Ex. So. Af. (2403)	138.35	+20.4	110.48	119.86	2.29	138.45	110.77	120.08	138.69	113.26	107.23
World Ex. Japan (2007)	113.15	+10.5	90.36	105.83	3.77	113.53	90.84	106.24	115.54	100.00	92.98
The World Index (2463)	138.27	+20.2	110.42	119.72	2.30	138.38	110.72	119.94	138.59	113.37	107.45

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).
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CONSTITUENT CHANGE: Name change: IC Industries to Whitman Corp. (USA).
Mexican market closed Dec. 1.

EUROPEAN OPTIONS EXCHANGE

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♥ Issued by tender. ♦ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ♣ Unlisted securities market. ♦ Official London listing. □ Including warrants entitlement. ° Third Market.

BASE LENDING RATES

[illegible]

● Members of British Merchant Banking & Securities Houses Association. * 7 day deposits 5.22% Sureriae 8.47%. Top Tier-£10,000 + instant access 11.06% ‡ Mortgage base rate. § Demand deposit 8%. Mortgage 12.375% - 12.75%

COMPANY NOTICES

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · FRANCE (continued) · GERMANY · GERMANY (continued) · ITALY · ITALY (continued) · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · AUSTRALIA (continued) · HONG KONG · SINGAPORE

[illegible]

CANADA

TORONTO

Closing prices December 2

[illegible]

1700 Co Steel f	$16¼	16¼	16¼	
44181 Cominco	$22¾	22⅛	22⅛	+ ⅛
13000 Compulog	$5	490	5	+ 10
11750 Connaught	$27¼	26⅞	27⅛	+ ⅛
52739 Con Bath A	$14⅝	14⅜	14⅝	+ ¼
609 C HCI A f	$8¾	8¾	8¾	
63890 Con TVX	$5⅞	5⅛	5¾	+ ⅛
21200 Jannock	$18⅝	18½	18½	− ⅛
2000 Kerr Add	$20⅝	20½	20½	− ¼
9814 Labatt	$22⅜	22⅛	22⅛	− ⅛
67727 Lac Mnrls	$12½	12¼	12½	+ ¼
348 Lafarge p	$19⅞	19⅝	19⅝	− ½
11150 Laidlaw A	$18½	18¼	18½	
258582 Laidlw B f	$17⅛	16¾	17	
750 Saskoil	$8⅞	8⅜	8⅜	− ⅛
54212 Sceptre	320	315	320	+ 5
1000 Schneider A	$24⅝	24⅝	24⅝	− ⅜
560 Scot Paper	$17½	17½	17½	− ⅜
4500 Scotts f	$13⅝	13½	13⅝	+ ⅛
2100 Scotts C	$14⅝	14½	14½	
140220 Power Corp	[illegible]	[illegible]	[illegible]	
46344 Provigo	$11¼	10⅞	10⅞	− ⅛
42305 Royal Bank	$36½	36¼	36¼	− ¼
200 SteinbrgA	$34¼	34¼	34¼	
22927 Videotron	$13	12⅞	12⅞	

Total Sales 5,415,784 shares.

MONTREAL

Closing prices December 2

[illegible]

INDICES

NEW YORK — DOW JONES

	Dec 2	Dec 1	Nov 30	Nov 29	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2092.28	2101.88	2114.51	2101.53	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.98	89.32	89.14	89.10	91.25 (3/3)	86.12 (4/1)	–	–
Transport	934.86	935.77	936.52	928.98	938.33 (25/10)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	183.74	184.39	185.63	184.45	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2105.80 (2120.02) Low 2075.39 (2095.48)

STANDARD AND POOR'S	Dec 2	Dec 1	Nov 30	Nov 29	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	271.81	272.49	273.70	270.90	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	313.62	313.78	315.12	311.96	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	24.77	24.84	24.94	24.59	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	153.02	153.37	153.90	152.43	159.01 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	295.27	295.25	294.36	292.20	309.33 (10/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	373.91	373.87	371.45	368.15	394.77 (18/7)	331.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Nov 25	Nov 18	Nov 11	year ago (approx.)
Dow Industrial Div. Yield	3.82	3.83	3.81	3.59
	Nov 30	Nov 16	Nov 9	year ago (approx.)
S & P Industrial div. yield	3.21	3.32	3.19	3.31
S & P Indl. P/E ratio	12.64	12.13	12.60	16.39

TRADING ACTIVITY

† Volume Millions	Dec 2	Dec 1	Nov 30
New York	125.205	129.380	157.810
Amex	13.830	19.603	9.931
OTC	125.023	123.269	125.341

NEW YORK	Dec 2	Dec 1	Nov 30
Issues Traded	1,929	1,953	1,941
Rises	603	662	988
Falls	803	794	478
Unchanged	523	497	475
New Highs	18	22	31
New Lows	20	27	30

CANADA

TORONTO	Dec 2	Dec 1	Nov 30	Nov 29	1988 High	1988 Low
Metals & Minerals	2945.6	2947.6	2925.4	2907.5	3226.5 (5/7)	2238.7 (8/2)
Composite	3293.3	3300.5	3294.7	3273.6	3465.4 (5/7)	2977.9 (8/2)
MONTREAL Portfolio	1633.80	1640.31	1640.31	1626.36	1723.71 (5/7)	1305.06 (27/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
RJR Nabisco	5,172,500	90⅝	− 1
SmithKline	2,898,100	45⅝	+ 1⅛
AT&T	2,065,500	28¾	− ⅛
Ford Motor	1,400,400	51⅞	− ¼
IBM	1,350,200	119¼	+ 1
General Electric xd	1,339,000	43⅞	− ⅝
Exxon	1,321,900	42⅞	− ⅝
PNC Financial	1,248,400	40⅞	− ⅜
Pub Serv E & G	1,184,700	24⅛	− ¼
Ulco	1,058,700	15¼	− ⅝

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec. 2	Dec. 1	Nov. 30	Nov. 29	1988 High	1988 Low
AUSTRALIA All Ordinaries (1/1/80)	1450.6	1456.5	1471.5	1472.0	1657.8 (9/8)	1170.7 (10/2)
All Mining (1/1/80)	660.0	672.7	682.3	682.2	847.8 (9/8)	532.4 (10/2)
AUSTRIA Credit Aktien (30/12/84)	221.30	220.50	221.10	221.20	225.48 (4/11)	163.98 (11/2)
BELGIUM Brussels SE (1/1/84)	5338.20	5355.70	5361.70	5341.90	5393.00 (24/11)	3608.35(4/1)
DENMARK Copenhagen SE (3/1/83)	(u)	(u)	252.22	249.63	252.22 (30/11)	180.68 (4/1)
FINLAND Unitas General (1975)	744.4	744.6	743.1	741.0	772.1 (8/8)	530.6 (15/1)
FRANCE CAC General (31/12/82)	(u)	392.3	390.9	390.5	397.2 (9/11)	251.3 (29/1)
Ind. Tendance(31/12/87)	150.0	150.7	150.1	149.5	153.4 (4/11)	89.7 (29/1)
GERMANY FAZ Aktien (31/12/58)	526.55	529.54	526.45	521.33	542.21 (27/10)	396.40 (29/1)
Commerzbank (1/12/53)	1579.3	1591.2	1582.5	1567.0	1641.60(27/10)	1207.9 (29/1)
DAX (30/12/87)	1275.78	1277.98	1275.99	1262.55	1314.98 (28/10)	931.18 (28/1)
HONG KONG Hang Seng Bank (31/7/64)	2667.26	2668.03	2659.30	2632.68	2772.53 (12/7)	2223.56 (8/2)
ITALY Banca Com. Ital. (1972)	585.25	582.36	578.92	574.22	593.43 (9/11)	423.91 (9/2)
JAPAN** Nikkei (16/5/49)	29532.25	29541.46	29578.90	29318.30	29578.90 (30/11)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	2283.25	2282.50	2285.75	2269.15	2285.75 (30/11)	1690.44 (4/1)
NETHERLANDS ANP-CBS General (1970)	272.8	273.4	274.0	271.2	285.8 (26/10)	205.7 (4/1)
ANP-CBS Industrial (1970)	240.4	241.0	241.4	238.9	252.6 (31/10)	157.9 (11/1)
NORWAY Oslo SE (4/1/83)	426.00	421.16	422.34	419.42	426.00 (2/12)	327.78 (28/1)
SINGAPORE Straits Times Ind. (30/12/66)	999.37	1003.47	1005.49	1003.37	1177.87 (8/8)	833.60(4/1)
SOUTH AFRICA JSE Gold (28/9/78)	1351.0‡	1367.0	1343.0	1331.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	1865.0‡	1864.0	1856.0	1846.0	1869.0 (2/11)	1387.0 (12/2)
SPAIN Madrid SE (30/12/85)	276.89	280.66	281.57	282.23	301.63 (15/6)	225.50 (4/1)
SWEDEN Jacobson & P. (31/12/56)	3258.86	(u)	3216.88	3181.70	3267.33 (4/11)	2148.5 (4/1)
SWITZERLAND Swiss Bank Ind. (31/12/58)	581.9	585.3	583.2	580.9	585.3 (1/12)	466.6 (13/1)
WORLD M.S. Capital Intl. (1/1/70)	(u)	490.8	490.8	487.8	491.1 (24/11)	401.0 (21/1)

**Saturday Dec. 3: Japan Nikkei 29655.50 and TSE 2295.16

‡ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 2 December 1988

	Stocks Traded	Closing Prices	Change on day
Japan line	44.8m	596	+17
Nippon Steel	44.3m	930	-6
Marubeni	36.4m	783	+11
Hitachi Zosen	32.6m	625	+25
Mitsui OSK Lines	30.9m	794	-8
Nippon Yusen	29.1m	912	-8
Mitsui Eng. & Shipbdg	28.9m	734	+28
Yamashita Shin-nihon	28.8m	571	+12
Sumitomo Metal	27.2m	970	-1
Kawasaki Kisen	25.9m	595	+15

4pm prices December 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
27¾	14	AAR	.44	2.0	16	1064	22⅞	22⅛	22⅛	−⅞
10⅛	8¾	ACM n				333	9⅛	8¾	9⅛	+⅛
12⅛	10¾	ACMIn	1.26a	11.		582	11⅛	10⅞	11	
10⅛	10	ACM M n				30	10⅛	10	10⅛	
12⅛	10⅛	ACMSc	n1.26	12.		911	10⅝	10⅜	10⅜	−⅛
10⅛	8⅞	ACMSp	n1.01a	12.		x456	8⅞	d8⅝	8¾	
5⅞	2⅝	AMCA	.12e	3.7		10	3¼	3¼	3¼	
6⅛	3⅞	AM Intl				408	4⅝	4½	4½	−⅛
23¼	18½	AM Int pf	2	9.4		37	21¾	21¼	21¼	
63¼	28¾	AMR			9	6745	53¼	51⅞	51⅞	−¾
27	25	ANR pf	2.67	10.		1	25½	25½	25½	
9½	5⅛	ARX			10	373	5⅞	5⅝	5⅞	+⅛
58¼	35¼	ASA	3a	7.5		806	39⅞	38½	39⅞	+1⅛
20¼	11	AVX	.12e	.8	11	280	15⅞	15¼	15¼	−⅝
52⅞	42¼	AbtLab	1.20	2.6	14	2495	46	45⅝	46	+¼
21⅞	16⅛	Abitibi g	1			76	18¼	18⅛	18⅛	−⅛
13⅞	7½	AcmeC	.40	4.8		54	8¼	7⅞	8¼	+¼
8⅞	6⅞	AcmeE	.32b	5.3	26	6	6	5⅞	6	+⅛
29½	12¾	Acuson			23	431	24⅛	23½	24⅛	+⅝
17	14½	AdaEx	1.82e	12.		86	14⅞	14⅝	14⅞	+⅛
16⅞	7⅛	AMD			16	5703	8⅛	7⅞	7⅞	−⅛
43½	28¾	AMD pf	3	10.		68	30	29½	30	+½
8½	4¼	Adobe				212	6¾	6⅝	6¾	
18½	16¼	Adob pf	1.84	11.		6	17¼	17¼	17¼	−¼
21¾	19¼	Adob pf	2.40	12.		6	20½	20½	20½	
9¾	5⅞	Advest	.12	1.8	21	71	6⅞	6¾	6¾	−⅛
52½	39½	AetnLf	2.76	5.8	8	1280	47½	46⅝	47½	+⅞
34¼	20½	AfilPb s	.22	.7		1308	31½	29⅝	31⅞	+1½
18⅞	13	Ahmans	.88	5.5	9	2797	15⅞	15¼	15⅞	
4⅝	1⅞	Aileen				39	3⅝	3½	3⅝	
63½	30⅞	AirPrd	1.20	3.0	10	1104	39⅞	39	39⅞	+¾
19⅞	11¼	AirbFrt	.60	3.2	18	65	18⅞	18¾	18½	−¼
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 43

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
8⅞	6	Royce	.22e	2.6		167	8⅜	8⅛	8⅜	+ ⅛
27	19⅞	RubAmd	.44	1.8	19	720	24⅝	24⅛	24⅝	+ ¼
28⅛	17½	RussBr	.40	2.1	8	6	19¼	19⅛	19⅛	− ⅛
18⅞	11	RussTg	.60	4.8	19	285	12½	12⅜	12⅜	− ⅛
17¾	10⅝	Russell	.24	1.5	12	190	15⅞	15⅝	15⅞	+ ⅛
32½	20	Ryder	.68	2.8	15	1602	24	23¾	24	− ⅛
31½	17⅝	Rykoff	.68	2.4	15	213	28⅞	28½	28½	− ¼
19	11	Ryland	.50	2.7	7	199	18⅞	18⅝	18½	
13½	8⅛	Rymer			62	32	9¼	8⅞	9¼	− ⅛
10	7¼	Rymer pf	1.17	14.		11	8⅛	8⅛	8⅛	
		− S−S−S −								
34½	29⅛	SCEcp	2.48	7.7	8	4452	32½	31⅞	32⅛	− ½
9½	6½	SCOR U	.10e	1.5	5	20	6⅞	6⅞	6⅞	− ⅛
10⅝	7⅛	SL Ind	.17b	2.0		2	8½	8½	8½	+ ⅛
45⅝	20⅞	SPSTec	1.20	2.9	35	25	42⅛	42	42	− ⅛
39½	25	SPX Cp	1.20	3.2	14	613	37⅝	37⅛	37½	+ ¼
31⅛	14⅝	SSMC			67	95	20	19¾	20	+ ⅛
25¼	17	Saatchi	1.04e	5.6	8	105	18½	18⅛	18½	− ⅛
13⅛	10	SabnR	1.39e	11.	8	14	12⅛	12	12⅛	
17⅛	10¼	SfgdSc			8	18	16	15½	16	+ ⅜
35¼	21⅞	SafKln	.30	1.2	22	488	25½	25	25¼	
9¼	6⅝	SabCas	1.12	13.		49	8⅝	8⅝	8⅝	+ ⅛
24½	18	StJoLP	1.40	6.6	9	13	20⅞	20⅝	20⅝	− ¼
19¾	6	Salant				189	16¼	16	16	
85½	62	SallMa	.80	1.0	16	992	82	81⅞	82	+ ½
28⅝	16⅝	Salomn	.64	2.6	17	1282	24⅞	24⅜	24⅞	+ ½
39⅞	29¼	SDieGs	2.60	6.5	12	3563	u39⅞	39	39⅞	+ ½
8⅜	6⅛	SJuanB	.27e	4.2	17	143	6⅞	6½	6½	− ⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
63	50⅛	Xerox	3	5.5	10	1421	54⅞	53⅞	54⅛	+ ½
50⅛	46	Xerox pf	4.13	8.8		1	46⅝	46⅝	46⅝	+ ½
38⅝	19⅛	XTRA	.72	2.1	15	329	35	34½	35	
69¼	19⅝	Yorktn			15	127	53½	52⅝	53⅜	+ ⅝
3⅞	2⅛	Zapata				295	2⅝	2½	2½	
27⅛	13½	Zayre	.40	1.5	175	1446	26½	26⅛	26⅜	− ⅛
30	13	ZenithE				1551	19⅜	18½	19	
10⅞	9½	Zenin n	.60e	6.1		115	9⅞	9⅞	9⅞	+ ⅛
3¼	1	vjZenLb				325	2⅛	2	2	
21⅝	13⅛	ZenNtl	.80b	6.1	7	94	15¾	15⅛	15⅛	− ⅛
17¼	11¾	Zero	.44	2.7	14	140	16¼	15⅞	16¼	+ ⅜
29	15½	Zurnln	.69	2.5	18	215	27¼	27	27¼	+ ⅛
11⅛	8⅛	Zweig	1.04	10.		184	10¼	10⅛	10¼	
10⅛	9¼	ZweigT	n.08e	.9		403	9½	9¼	9⅜	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices December 2

OVER-THE-COUNTER

Nasdaq national market, 4pm prices December 2

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
Wllamt	1.20	7	210	45½	44⅞	45¼	+ ¼
WIIAL		6	385	15⅝	15¼	15⅛	− ⅜
WlmTr	1	10	109	27⅝	27¼	27⅜	− ⅜
WilsnF		22	50	14⅛	14	14	− ⅛
Windm s		9	1485	18⅛	15⅞	18⅛	
Wolohn	.28	9	542	u17½	16⅞	17¼	+ ⅞
WolvEx			130	6⅝	6⅛	6⅛	− ⅛
Worthg	.44	15	337	22⅛	21¾	21¾	− ⅜
Wyman	.80	14	31	15	14½	15	
−X−Y−Z−							
XL Dta		16	459	26	25¼	26	+ ½
XOMA			1062	12½	12	12¼	+ ⅜
X-Rite s		15	21	9¾	9½	9½	− ¼
Xicor		12	5000	7⅝	6⅞	7⅜	+ ⅜
Xyvsn			168	4⅜	3¾	4	
YalowF	.70	20	1309	33¼	32¾	32⅞	− ½

FINANCIAL TIMES

Monday December 5 1988

The Business Column

Uncertain value of a boot in the backside

The Confederation of British Industry's recent call for tighter rules on hostile takeover bids has received a predictably brusque rebuff from Whitehall, which clearly views it as a self-serving attempt by incumbent managements to secure a quiet life.

Indeed, Mr Francis Maude, a junior UK industry minister, has seized the opportunity to inveigh against the devices widely used in continental Europe to fend off predators, arguing that they cocoon somnolent companies and depress share prices.

There is some truth in this. On the Dutch stock market, for example, where hostile takeovers are as rare as a black tulip, companies' average return on equity is below the level in London, and most trade at lower multiples.

However, it is one thing to assert that Dutch investors get a raw deal. It is quite another to claim that hostile takeover bids perform a Darwinian role, regenerating industry by ensuring that poorly run companies are placed under more effective management. Such arguments fly in the face of the statistical evidence.

Studies of mergers and acquisitions have repeatedly concluded that they often produce no measurable improvement in longer-run corporate performance. Still worse, according to some authoritative calculations, more than half such deals end in failure. Even compulsive gamblers would balk at such odds.

Perhaps that should be no surprise. After all, the most important pre-requisite to mounting a takeover bid is cash, or the ability to raise finance. That does not necessarily imply superior management – though predators invariably lay claim to it. The reverse may even be the case.

One way to accumulate cash is to shrink an existing business by starving it of investment – hardly a sign of entrepreneurial dynamism. Nor is it unknown for the announcement of a bold bid by a hitherto somnolent company to be greeted by the City as a miraculous sign of life, reflected in a re-rating of its shares.

The most positive evidence that predatory bids improve corporate performance is to be found in the reaction of reluctant target companies. By sprucing itself up, Pilkington was able to evade the clutches of BTR, while General Electric Company's bid for Plessey three years ago induced the latter to put on an impressive, though short-lived, turn of speed.

The contrast with West Germany

Hence, hostile takeovers might seem most effective as a Damoclean sword which never falls. But apart from the fact that threats must be periodically exercised to be credible, it is also questionable whether fear of an occasional boot in the backside is the best way to get results.

Contrast this with the very different situation in West Germany, where sustained pressure is exerted on managements by the much-maligned banking system, via its huge shareholdings in industry. When things go badly wrong, managers are ejected quickly, but the bank shareholders stick around to help clear up the mess.

Unlike UK institutional investors, German banks view their equity holdings not as a source of capital gains but principally as long-term security for their commercial loans, the predominant source of German corporate finance. These are provided on attractive terms, being funded out of retail deposits on which only modest interest rates are paid.

But as German banks are well aware, increased competition for retail deposits after 1992 could force up their cost of capital. Companies would then have more incentive to diversify their sources of finance, and the tightly knit threads of the banking-industrial complex could start to unravel.

On that scenario, some of Germany's ironclad defences against hostile bids could be eroded. Both Mr Maude and the CBI would doubtless find cause for celebration in that. Whether exposure to Anglo-Saxon takeover practices would benefit the performance of German industry is another matter.

Guy de Jonquières

THE MONDAY INTERVIEW

Farmer's boy in DC

Nancy Dunne talks to Clayton Yeutter, the US trade representative

It is 1,253 miles from the rolling hills of Nebraska, a state of stubbornly independent, conservative farmers, to Washington DC. It is light years further to the negotiating tables in Montreal, where the élite of world trade will today begin formal sessions to advance the modernisation of the 94-nation General Agreement on Tariffs and Trade (Gatt).

The leader of the US side in the talks is the ebullient Clayton Yeutter, 57, the US Trade Representative, who once thought to make his life on his 2,500-acre family farm. It was Mr Yeutter who played a vital role in propelling the talks into motion at Punta Del Este in Uruguay two years ago and drove the trade ministers to today's "mid-term review" just weeks before he is set to leave the stage of international trade.

If tireless travel, shrewd posturing and cajoling are enough, Mr Yeutter will get his way amid the chaos of competing interests. But last week, the Trade Representative was lowering expectations of breakthroughs on the vital issues of agriculture, services and intellectual property rights.

Bursting through the door of a press briefing, greeting journalists with a cheery "there's my crew," he promised to walk away from unsatisfactory agreements. Later, in an interview, he stressed the "intangible benefits" of a review halfway through the four-year round. "Montreal is a success even if nothing is agreed upon," he said. "It has stirred up intense activity, raised the profile of trade and generated momentum for 1990."

Mr Yeutter sees the Uruguay round – the eighth set of negotiations in the Gatt's 41 years – as the most momentous talks in its history. He says the Gatt's failure to define rules for most of today's trade – in agriculture and services – and its inability to settle disputes in a timely fashion have put its very existence at risk.

The first two years of the round have been marked by substantial results, he says. "The process is much more advanced than was the Tokyo round at a comparable time. Montreal will demonstrate that the trading nations of the world have been working together diligently . . . not just the big boys but very substantial numbers of developing countries as well. But it is imperative that this process not be delayed beyond 1990," when it would become entangled with talks on the European Community's drive to establish a unified internal market after 1992.

Although Mr Yeutter says he is prepared to leave Montreal without agreements in the key areas, he is pushing hard to map out in each of the 15 negotiating arenas the paths the negotiating groups will be taking over the next two years.

He is particularly anxious for progress on intellectual property rights which he views as "divergences basically between the pirates and the non-pirates."

"We simply cannot allow people and institutions, which work hard, spend their own money and make the necessary commitments, to come forth with products for the betterment of the world and be robbed of the fruits of their endeavours." He warns of unilateral action against the pirates by the US because "this is not a problem that will be left to fester."

PERSONAL FILE

1930 Born
1952-66 Bachelor of Science, Law, PhD, University of Nebraska
1966-68 Executive Assistant to Nebraska Governor
1968-70 Director, University of Nebraska agriculture mission in Colombia
1970-75 *Agriculture Dept*
1975-77 Deputy Special Trade Representative
1978-85 President, Chicago Mercantile Exchange
1985- Trade Representative

There are those who hope that Mr Yeutter's hunger for a final victory is such that he will compromise on agriculture. He vows that he will not, and makes a pitch for "truly meaningful agriculture reform."

"We simply can't go on with the situation that prevails today because of the enormous cost to consumers, to the taxpayers of many countries, to the poor of the world in terms of their access to food, and to the economic development of the LDCs (less developed countries)."

He adds: "Global agriculture is near chaos because national governments are using trade policy as a weapon to gain advantages for their own farmers . . . This creates a world in which, even though farmers are more efficient and productive than ever before, there are countries where people do not have enough to eat."

Against strong EC resistance, he is seeking agreement among the producing nations to phase out all agricultural export subsidies, import barriers and domestic subsidies which encourage over-production. "We exclude *bona fide* food aid programmes and income supports that do not affect pricing or production decisions – key elements of our proposal that its critics conveniently ignore."

Looking over Mr Yeutter's shoulder in the talks will be a congressional delegation and several farm lobbyists. They will serve as a negotiating lever, a reminder that new US farm legislation is to be written next year and even larger, more trade-distorting US subsidies are possible.

Those who have known him longest say the always-grinning Mr Yeutter has proved to have a sharp bite. Mr Mike Hall, a Washington representative of the National Corn Growers, has been on the opposite side to Mr Yeutter on several issues. He praises him as the most knowledgeable of trade representatives and contends "he can be tough as nails."

It is a toughness learned in his boyhood, when the long hours of farm labour built the discipline and physical stamina necessary for life on the fast track.

'The Good Lord has blessed me generously with talents'

"I was an only son, and my dad needed my help on the farm. He said I'd had four years of high school which was four more years than he'd had, and that was plenty."

He was persuaded to go on with his schooling by Mr Harold Stevens, the leader of his 4-H club, the most prominent youth organisation in rural America. He went on to earn a doctorate in agriculture economics and a law degree at the same time, while managing the farm.

Tales of Mr Yeutter's inexhaustible energy abound.

Sir Roy Denman, head of the EC delegation in Washington, recalls negotiations with him in 1985. The US and the Community were on the brink of trade war over American grain market losses when Spain and Portugal joined the EC. At the same time as Mr Yeutter was conducting these important talks with the EC, he was also negotiating with the Japanese over leather and Congress over protectionist textile and clothing legislation.

He is a shrewd negotiator, who stresses homework and planning and who tries to map out every conceivable feint and fallback position before going into negotiations.

He is the man who wrested from Japan a long-sought commitment to open their markets to beef and citrus imports. "I can really read the Japanese," he says, adding that their positions are more predictable than those of the Europeans, who are more "diverse".

Mr Yeutter's self-confidence is almost overwhelming. "The mistakes I have made are mostly people mistakes. Oh, occasionally there are mistakes in programmes and policy. I'm a hard-charging person. Knowing how hard to push and when to retreat is an art," he says.

He learned through years in government jobs, academia and as president of the Chicago Board of Trade that "people are people. All have the same aspirations. They all want successes of their own . . . You have to put yourself in their shoes."

He believes he understands the EC's reluctance to make major changes in its Common Agriculture Policy "as well as they do themselves," but that change is bound to come eventually because the cost of the CAP is so heavy.

"We've just had the best discussion ever in Brussels," he says. "We did not bridge the gap. But some day that discussion will pay off for the world."

With just seven weeks left before President Reagan leaves office, Mr Yeutter seems to be preparing for a return to the private sector. He gets calls from old friends urging him to pursue the Agriculture Secretary position in the Bush Administration. "It is a job I would have loved eight years ago," he says.

He did not absolutely rule out taking the agriculture post now, or perhaps staying on as trade representative until his successor is chosen. He admitted to having difficulty in leaving with the Uruguay Round only half completed.

"I've put heart and soul into this," he says. "It's like having a baby."

But he is methodically sifting through options, and considering new challenges in investment banking, international law, academia or agribusiness. He says he does not care much about making a lot of money. "We have a certain space of time on earth. The Good Lord has blessed me generously with talents."

He still has much to see. For all his travels, the only time he broke out of the protective official cocoon which shields him from limousines to aircraft, to embassies, to meeting rooms was in China, where he and his wife Jeanne managed a few hours of sight-seeing.

"I went to Bali once for talks," he says. "But I never saw Bali at all."

Privatisation and the prisoner on remand

JUSTINIAN

When the Home Secretary announced in the summer that he was contemplating the private management of centres housing accused persons remanded by the courts to await trial, the prison reform lobby instinctively through up its hands in horror. Prisons, penal reformers proclaimed, are a public trust. Only public servants loyal to the highest interests of society may properly be entrusted with the duty of running any part of the penal system. Any element of personal profit from running a penal establishment would be inconsistent with that principle.

The argument of principle is that the task of detecting crime, prosecuting offenders, maintaining a system of criminal justice and the punishment of those found guilty by the courts, are all of a piece and fall squarely within the ambit of public administration. The management of prisons, regardless of the category of prisoners, is an inherent and inseparable part of that public administration. Private enterprise is recognised generally as having had only a very limited role in the criminal process. It has had a long established role in the building of prisons and is represented in the new Prisons Building Board. But it has little or no other involvement.

Indeed, the nationalisation of the prison service in 1877, which transferred the management of local prisons from justices of the peace to central government, was prompted by the deplorable conditions of the prisons and the expense of management. Today local prisons under central government, as one prison governor recently described them, represent "high cost-squalor." Prison administration until 1877 had not been one of the brightest episodes in the history of local government and it was difficult to imagine how prisoners could fail to be better *off under* central government. And so it has been. But has the time now come for improving the lot of *unconvicted* prisoners by letting in private management?

The Home Secretary largely endorses the prison reformers' general thesis. The business of keeping *convicted* prisoners in Her Majesty's prisons is the business of Her Majesty's Government, if only because Her Majesty's courts have so decreed. But Mr Douglas Hurd has been careful not to rule out the private management of institutions for the *unconvicted* who are nevertheless remanded in custody by Her Majesty's courts.

The issue is, in essence, one of supervision and accountability. Prisons exercise great powers over those within. And because prisons are closed institutions, *out of sight* and perhaps largely out of mind, and, therefore, vulnerable to unacceptable behaviour by prison staff, ministerial control and accountability to parliament is all important.

The prison service has at present no code of practice which lays out comprehensively the requirements for prisons or remand centre regimes. The service has so far resisted the insistent demands of prison reformers to establish standard minimum requirements for prisons. In any event, framing such a code would be long-winded and costly. On the other hand a private contractor managing a remand centre could, and should be required to set down very clear and enforceable standards in the contractual arrangement made with the Home Office.

The question is: how would any such rigorous standards be maintained? Private contractors undoubtedly will ensure high standards of physical accommodation. Without such standards they would be unlikely to persuade the Home Office of their acceptability as managers. But it is the daily routine of the establishment – the quality of staff, the care and treatment of inmates and the various facilities for all those unconvicted prisoners preparing for trial in a custodial situation that demands constant overview.

Prisons, to which the courts have confided convicted persons for defined periods without any say as to where confinement will take place or in what conditions, present different propositions. Once convicted, the courts cease to have any executive power over the care of prisoners.

Remand centres, by contrast, remain indirectly under the control of the courts which commit accused persons to them. Legal representatives of unconvicted prisoners have unrestricted access to their clients, and magistrates' courts *could conveniently revert to* the former power of requiring remand prisoners to be brought up every eight days. Thereby judicial supervision of unconvicted prisoners would be maintained.

The Home Office, moreover, could demand that private remand centres should be sited near to courts and to a good transport network, thus reducing the amount of escorting of prisoners and ensuring easy access for families and lawyers. Facilities for the physical and mental health of unconvicted prisoners could be made a good deal more effective than is at present the case with the prison service. Since the main daily function of a remand centre is that of taking prisoners to and from court and the reception, at the end of the day, of those committed, the rest of the staff will be concerned at caring for the needs of prisoners pending trial.

Human beings in prison always face a loss of identity. Such loss is most marked among those who lie in jail for a long time. "Each day is like a year: a year whose days are long," wrote Oscar Wilde, who served all of a two-year prison sentence.

If private remand centres house unconvicted prisoners only for periods of three to four months on average, this worrying effect of imprisonment on human dignity would be substantially diminished. The experiment of privatising this one segment of the prison service, which the Home Secretary has recently announced, deserves a good deal more than a *knee-jerk* reaction from prison reformers.